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Cost and Price

OR THE

Product and the Market

By ISAIAH SKEELS

AN ANALYSIS OF THE NATURE OF COSTS AND AN INQUIRY INTO THE ORIGIN OF PURCHASING POWER AND CREDITS SHOWING THEIR LIMIT IN PAYING THE PRICE OF PRODUCTS AND THE EVER INCREASING NECESSITY FOR MUNICIPAL AND INDUSTRIAL BOND ISSUES

THE DAVID GIBSON COMPANY

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Publisher's Introduction.

"As I study conditions within my business I find that they soon develop questions the answers to which are beyond my business and beyond my knowledge to answer. There is a limit to the efficiency and economy of my business, because in its study I soon reach the *economic sins* of others. They are social and community problems, but so vital in their effect upon me and my prosperity that I must some day go into a room, lock the door and think them out."

This was a recent utterance of a man, the head of one of the important industries of the central-west.

This man now has no need to think out these answers,—they have been answered for him in this book.

The business man of today has studied the minutest processes of his product and has applied efficiencies and economics as these studies reveal them to him. He has expanded his product to meet the demands for increased revenue, but he soon finds, as the man just quoted, that the problems extend beyond the range of his business; that a community or society is a co-operation to other businesses like his own,—that one affects another, and each affects all. He also finds that the same major principles of bookkeeping will apply to the community and to his own individual business, that the community has overhead charges to which all businesses must contribute in making their original investment—and also in rents, interest, taxes, pay roll and all material and supply bills.

He finds that this community overhead charge not only affects him in his buying, but in his selling; that it not only restrains him in his ability to reduce his production costs, but also to increase his revenue, for those who com-

prise the market must also contribute to this constantly increasing overhead or burden charge of the community, and which restrains them from buying more and better goods.

The business man, by his cost accounting system, is able to study cause and effect within his own business, but he has had no means by which to study community problems, at least in reference to his own business, until this book which is not a commercial proposition in the sense of most books.

The author saw it as a book that needed writing, the publishers saw it as a book that needed publishing.

But a condition requires more than a presentation by an author and by a publisher in the form of a book; it requires not only a careful reading and study by those who will be benefitted by its solution, but by their urging a reading and study on the part of those who expand public opinion and make laws.

The author, Isaiah Skeels, has been a man of material accomplishment throughout his life. He has been a student of cause and effect in the actual sense of the business man, for whom he has prepared this work; and the only difference in the attitude of the reader and author being in the fact that the author foresaw the conditions, studied them, and is now answering the questions that all his fellow administrative producers are just now asking.

He has been both an employee and an employer. Forest born and farm bred, as a worker and an employer in the lumber camps of the North, as civil engineer and erecting engineer of factory buildings, and designer of machinery, he has a wide range of practical experience. As machinery salesman he has traveled into nearly every state in the Union and has visited every district of industry, mechanical, agricultural and mercantile, and has made a human and material study within them with this work in mind.

Author's Introduction.

Men who lead in thought and work disagree on important questions, which is evidence that some of them are in the wrong, yet it does not prove who are in the right.

A disagreement among leaders is an excuse for independent thought among those whose welfare and interests are directly affected, and this is the reason for this work. While it may bring them no nearer the truth, the fact that men disagree in the honesty of their convictions entitles them to respect, whether right or wrong, so long as there is a shadow of doubt cast over the question at issue.

For this reason all men and all interests are given respectful consideration in this work, and names are only mentioned where necessary to give authority and add strength to the argument or deduction. The writer only asks of others the same degree of respect that he has shown others.

But, in expressing a new idea a writer is confronted by the difficulty of conveying to other minds his idea in the same size, weight and form that he has evolved and fashioned from a study of the facts and conditions, and for that reason the assistance of the reader is respectfully asked to the end that condemnation may not preclude an understanding.

Carlyle, when asked if he could explain a certain question, answered that he could, but that he could not furnish the brains necessary to an understanding.

But in this case the writer knows that a careful reading is all that is necessary to an understanding, but he does not expect a hearty agreement from those whose interests are laid bare by an analysis of the facts.

The effort has been to analyze and present facts in their nudity, leaving the reader to clothe them in their

vestments of right or wrong, and as may be best suited to his personal interests.

Nor should certain deductions in the work be taken too seriously, for it is often necessary to follow a deduction to an extreme in order to determine whether a tendency is but an alternating swing of a pendulum or a real drift,—a drift that may temporarily dally in eddying circles, but never returns to the starting point, except through the process of evaporation and condensation, decay and new growth.

Conditions, economic and mental, are too well known to require comment.

The mental attitude of the majority of the people shows that they are not satisfied with economic conditions, and failing to agree, they are at greater disagreement as to whether the remedy is in applying legislation and administration to the cause or to the effect.

But however much they are disagreed on cause and action for remedy, they are agreed on the effect, and they are dissatisfied with it, and for this reason this work is confined to causes underlying the effect, and the facts underlying the causes; facts that have never been taken into consideration by an economic writer before, at least not grouped in their relative consequences.

If in this work the manufacturer is apparently favored, it is by reason of the relative importance of his pay roll and products, as compared to speculative interests,—productive capital having long been the point of attack by the people. It has been charged with the sins committed by others, and the writer should not be criticised for the deductions, for no other can be made when the facts are understood.

The writer does not make the facts,—only the deductions.

ISAIAH SKEELS.

Cleveland, July 1913.

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THE BROADENING VIEW

There are flitting thoughts that come to the mind
  While doing our task through the day,
And they come again in the evening time
  But we firmly put them away;
Put them away as unfitting our faith
  And what we were taught in our youth,
But find them again in the garnered stores
  We have gleaned from the fields of Truth.

They are far from what we wish they could be,
  So we put them to every test,
As they weave a weft without cleft or loop,
  In the thoughtful hours of our rest.
They come to us first as unwelcome guests
  And we bid them to go their way,
But they broaden our mind to God and man
  And the part in life we must play.

—I. S.

BOOK I.

An Inquiry into tho Origin and Use of Funds and the Nature of Costs.

Chapter I.

OUR FACTORIES.

We pride ourselves on our civilization, a civilization that more completely reaches and inspires all the people of its time, than any civilization of the past. We have this reason for our pride, not that it is we and our day, but that we have accomplished more than any of our predecessors. By our inventive ingenuity we have evolved from the resources of Nature such an increase of production as should frighten the Malthusian nightmare into the shades of oblivion. But it must be evident to all fair-minded people that modern civilization, look at it as we may, is based upon the modern factory. While the farm still feeds civilized man, civilization is not a matter of food alone, since food is as necessary to the savage and the brute as to the highest civilized being. While inventive genius and applied science have lifted civilization to its present height, it is by developing the modern factory that they have enabled productive forces to multiply their output until the average home is equipped and furnished in a manner that would have been luxurious for the earlier modern kings. The factory is not only the source of our finished products, but it is the employer which generates and pays to us the wage fund that enables us to buy its products. Turn where we may to earn

our living, it is the factory which, directly or indirectly, employs us either in supplying it with raw material, in manning its machinery, in doing its clerical work, in superintendency and management, in selling its output, or in supplying its employees with what they may need for their material wants or their pleasures. The railroads that line the maps of the world are factory products in their every part, and, while they assist factory extension, it is the factory which makes the railroad possible and profitable. Even farm produce, it may be asserted, is factory-produced; for without modern farm machinery, furnished by the factory, farming would be limited to the physical lug and haul of olden times. Look where we will to supply our needs and satisfy our tastes, the factory has anticipated our wants and piled up its abundant variety for our selection, and stands ready to satisfy our most fastidious and most frivolous demands. Our modern cities are also factory products in all their material of construction. Is is for the factory and its dispensing benefits that business-pushing towns raise a bonus, and for which suburban land-owners vie in presenting a site, because of the prospect of an increasing population which shall bring a larger volume of trade to the merchant, a better market for the farmer, higher rents to the house-owner, and put higher selling prices on vacant lots. There is no other form of property which gives so much of value to its neighbors, in addition to what it pays out in wages, as the factory, while it never bribes the city council for valuable franchises and seldom infringes upon public rights.

But, to continue and increase its output, to employ labor and pay out wages, to add to the population of the town and to add value to other property, the factory must have a market for its products; and modern civilization is the greatest market the world has ever known. The real difference between ancient and modern civilization

can well be measured by factory production and market consumption. The real quality of civilization can be measured by the quality and quantity of what people buy and consume. To educate a people in buying and consuming is to give to them a higher degree of civilization and to add to their ability to earn and pay the price. Under present-day conditions, to practice old-fashioned frugality would not be economy, since it would check production and reduce both what the people have and their ability to buy.

To consider the market strictly from the viewpoint of selling our factory output, and to consider the sale of the factory output strictly from the viewpoint of giving employment and paying wages to labor, is but to arrive at the conclusion that extravagance in buying is what gives employment and what develops the wages.

"Double your industry and frugality," was Dr. Franklin's prescription for "hard times," and it was certainly applicable to the economic condition of his day, when the meager product of long hours at physical labor must be conserved in the most frugal manner; but to apply that idea literally to the conditions of today would mean to produce twice as much and consume half as much as usual, or to double output and buy and consume one-quarter of it. While extravagance in the expenditure of earnings can not be commended, real economy is in free and judicious, rather than frugal, buying, since the object of production is to have and enjoy the fruits of labor. It can be safely asserted that it is the extravagance of the people in buying and consuming that, by furnishing a market for their products, gives them employment; but it is the judicious expenditure of earnings and incomes, not frugality, which builds toward a higher civilization.

Consumption of the product is logically as necessary as production. A market is necessary to the product and

market implies sales, while sales imply buying. Production, marketing, buying and consuming form a complete economic ring. The demand for goods is the life of the market; it is also the measure of the factory output and the sum of the wage fund which gives to the community its purchasing power.

For a number of years there has been a condition—now a growing condition—which manifests itself as a surplus of goods on one hand and as a shortage of purchasing power on the other. A commission appointed by the governor of one of our states to investigate "the high cost of living," reported that there appeared to be no real surplus of goods, since the needs of the people were not fully supplied, but, rather, a shortage of purchasing power among the people with which to buy for consumption. This was, in their opinion, the result of higher prices.

Another body of learned men found, after investigation, that wages had advanced relatively with prices, thus leaving no advantage to manufacturers and dealers over wage-earners and the general consuming public. But, investigate as different interests may, the higher costs of manufacturing can not be asserted out of existence. The cost is there and, if the factory continues to employ labor and turn out a product, the cost must be covered in the selling-price. Nor does machinery improvement longer appear able to stem the tide of rising costs; and it may even be questioned if we have not already passed our boasted "age of discovery and invention." Our latest improvements in machinery are not covered by "basic" patents. The new is but the old made heavier and of stronger material, the semi-automatic made fully automatic and with a combination of principles borrowed from expired patents. Even with the best and latest improved machinery, costs have tended upward and profits downward to points never reached with the use of the poorer

and lighter machinery of twenty-five years ago, which could be used only at a loss if it were to be used to supply the needs of today.

The civilized world is undergoing an economic change and the process is but well under way; the end is not yet in sight.

CHAPTER II.

THE MARKET.

"Home Market!" Few people fully realize the full meaning of the term "home market." In a commercial sense it means the opportunity for the sale of goods within our national boundary, where a protective tariff is the rule. But let us consider the real "home market"—the household home and its substitutes: hotels, boarding-houses, rooms and restaurants. It may seem untenable to assert that fully ninety per cent of all our production is ultimately consumed in the household homes of our country, and the listing of such constructions as steam-boats, locomotives, machine-shops and farm machinery for household consumption may, at first thought, seem rash to the point of idiocy. But what is the ultimate object of their being? True, mowing-machines never enter the household, nor does the hay which they help to harvest, and rarely does the cow that eats the hay; but the meat, the milk, and the butter, the ultimate objects of their being, are of every-day household consumption. The mowing-machine and the factory that made it, together with other factories and the machine-shops and foundries which equipped them with machinery, and the locomotives and freight cars necessary in the transportation, are all used and finally worn out in supplying the necessaries, the comforts, and the luxuries of our homes. And their cost, as they wear out, is all added in minute fractions to the price of what enters the home for ultimate consumption and ultimate payment. Indirectly all the products of the world are for the home, since the home is the beginning and the

end of life; and in a direct manner all other costs are finally included in the price of those commodities which enter the home.

Since the homes of civilization are the real market, the better way of developing a market for all our products is to investigate the home-life of our toiling masses, with a view to finding there the incubus that thwarts the better influences of a higher civilization. That which will bring about a better home condition among our masses will also create a market for all that we can produce, and at profitable prices.

But we hear much of "the foreign market" as a profitable prospective receptacle for any surplus products which we do not or cannot afford to assimilate. While this is not the idea of those who are agitating and advocating the value of a foreign market, yet it must be so in effect if we find foreign relief for our surplus.

In this consideration of the foreign market, it should be borne in mind, that we are in no way discussing the natural commercial distribution of what Nature has apparently scattered so unevenly over the surface of the earth. Some localities, home and foreign, are favored with some natural deposit of utility value, while in other localities there is a shortage of this and an abundance of something else which has a commercial value. To distribute and equalize these deposits through the medium of foreign commercial exchange is natural and should be profitable. But to work off a factory surplus on a foreign market is very different.

Some of our eminent men, to judge by their writings and sayings, seem to believe the foreign market to be an uncertain, inanimate, and plastic condition which can be manipulated in such a manner as to absorb our products and exude gold, or, if we are not very alert, it will exude goods and absorb our gold. They seem to fear it and yet would court it, as one might pat a properly muzzled dog.

But the foreign market, as it really exists, is a condition relatively similar to our own market situation. There is a sameness in the mental and physical tendency to produce a surplus, and with it a relative shortage in purchasing power; and, as with us, a very proper desire to unload the surplus on a foreign market.

As the prime object of production is to have and to use all that which will give us a degree of satisfaction, how can we be the gainers by exporting more in value than we import and consume? To assume that any foreign people can assimilate our surplus in addition to their own production is equivalent to the admission that their economic condition is better than ours. But that condition of unbalanced foreign trade which compels us to send abroad each year several hundred million dollars more in value of goods than we receive in return is the result of a cause, foreign in its nature to the commercial exchange of products. This cause, the effect of which is to unbalance foreign trade, is the same cause as that which unbalances the home market, with a resulting surplus. The reason for this will develop as we proceed.

In searching for a market, or in planning to create a demand for products, assurance of satisfactory payments is of more importance than locality. To send goods to a foreign market and receive nothing but gold in return would tend to diminish the ability of our customers to buy as the margin of their supply of gold diminished. When their supply of gold had diminished to the margin of premiums, our supply of products would have reached the margin of loss—unless these customers chanced to be producers of gold and our economic condition had need of gold; then we should have come to a profitable exchange of products. A satisfactory market must imply a continuous trade condition, since those engaged, both capital and labor, have continuous needs to be supplied. A fluctuating market, with large margins, may be satisfactory

to the capital engaged, but not so to the labor employed, the needs of which are continuous. Nor do the needs of the people—their direst needs—create a market. Famines in India and China do not attract the surplus farm-products of other lands, nor has their scarcity of manufacturing capital attracted much labor-saving machinery, or, rather, labor- and wage-producing machinery. In a full sense, a market implies satisfactory payments; and one will observe that the countries whose people buy most from us are the greatest producers of those commodities which are building toward a higher civilization.

The more a people can produce and sell, the more they can buy and consume. The exchange of products more nearly balances in the scale of production when the earnings of the people are at the maximum. While it might seem that a shortage in production would stimulate a market demand, the reverse is true because buying and selling is but the exchange of products. This must be viewed in the broad sense of a rule governing the great volume of products and not of an exception which might apply to some perishable product that might be doubled in volume or cut to half by weather conditions.

But there is one idea, an assertion made by wage-earners, which contains too much of truth to be passed without notice. It can be mentioned here, but can be analyzed only in another connection.

Our wage-earners believe that an increase of wages would give them the necessary purchasing power to buy and consume the apparent surplus which clogs the market and smothers production. Without attempting to answer this fully now, we will consider some discrepancies.

That there is no shortage of purchasing power, as some eminent investigators have reported, is evidenced by the simple fact that there are sufficient loanable funds not only to purchase the market surplus but to employ all idle labor. That loanable funds are purchasing power can

not well be controverted; that they are not used in purchasing the factory output is evident; but it must be observed that these funds do not belong to the employers of labor, to be paid out in wages. It must also be observed that employers of labor are now heavy borrowers of these funds and that their bond issues are tending to an increase rather than toward payments. Therefore, if employers of labor are to pay higher wages, under present economic conditions, they must become heavier borrowers of loanable funds, increasing their encumbrance, or raise prices so as to leave wage-earners with no gain in relative purchasing power. The employers of labor stand midway between the parties who, owning the purchasing power and not needing goods, make loans, and the parties who do need the goods and would use the purchasing power if they had it.

Labor cost in manufacturing is far from the entire cost, especially with manufacturers of finished products whose raw material carries a heavy royalty cost in its natural state. Labor has no recourse for obtaining better wages other than a demand upon the employer; the employer has no recourse between first costs (costs before labor is employed) and the price that the market will stand unless he borrows funds or reduces profits, and profits are now such that reduction of indebtedness is practically impossible. To exact of employers a sufficient wage increase to enable wage-earners to buy and consume the market surplus and maintain a market balance would be to burden them with all the inequalities of our economic system and compel them to make good all shortage in available purchasing power. To use wages as a regulator or governor of market sales they must, necessarily, rise and fall in inverse ratio to the sales; falling with increasing sales and rising with increasing surplus, since to rise with increasing sales would tend toward increased output

and higher prices, while to fall with increasing surplus would only increase the surplus.

That labor has no recourse in demands for higher wages does not in any way assist the employer in obtaining the funds with which to meet the demands; nor does recourse to strikes and lock-outs in any way tend to settle or equalize an economic condition over which neither the employer nor employee has any control. That many employers can well afford to pay much higher wages is a matter of little doubt; but for the few to raise wages to the highest point that their business could stand would be an injustice to those who are now at that limit, since it would result in greater dissatisfaction with no general benefit.

If economic embezzlement, to coin a term, exists, it can not be found in our factory system; nor can we find any foreign market which can absorb what we cannot afford to assimulate; yet this would be necessary if relief were to be found abroad. That present wages are inadequate to maintain our standard of workingmen is beyond dispute, but the question is, where are the funds with which to increase wages?

The effect of a condition in any object is most manifest in the weaker portions of the surface, but the cause is among the roots. If Mount Vesuvius could be shoveled away and dumped into the deepest part of the sea, the eruptions which bring panics and destruction would not cease; for the cause which created the mountain itself lies far beneath.

Chapter III.

ORIGIN OF PURCHASING POWER.

Purchase:—*To acquire by any means except descent or inheritance.*—Blackstone.

Power:—*Capability of producing an effect, whether physical or moral.*—Webster.

Purchasing power, in the broad meaning of the two words combined in the term, means ability to acquire. In the economic sense in which it has been used in several political campaigns, it means the acquired substance—money or produce—of which people are possessed and which has a recognized exchange value. But in this work the meaning is not strictly limited.

Since the habit of thought among all classes of people, when in need of necessary commodities, turns toward money, and as they measure and express their incomes and expenses in terms of money, it seems difficult or inconvenient for them to distinguish between money and purchasing power. But purchasing power precedes money as effort precedes results. Purchasing power endows money with value and it is with purchasing power that money is obtained. Purchasing power implies something to be purchased as well as something to purchase with, while money will fail in environments where there is nothing for sale.

In a broad sense, purchasing power might be defined as any substance or moral force which the possessor can successfully offer or tender in exchange for any other substance or moral force. This would constitute an exchange of recognized values, each value having purchased and paid

for the other. But in the exchange of moral force for moral force, fortune-telling for fortune-telling, and good advice for good advice, the parties making the exchange, it will be well to observe, do not consider values as when they traffic for money and commodities, or as do those who exchange substance for substance, in barter or by money payment.

Commercially, purchasing power implies a dual condition, two parties being necessary to an exchange of values. Therefore, while one party, by value rendered or by persuasion, may induce the other party to accept moral force in exchange for valuable substance, it must be, in fact and logic, that the value of the substance was the desideratum of the exchange. Thus, no matter what may be tendered on one side, there must be a material substance of recognized value on the other in order that purchasing power may be operative. Commercially, in logic and in fact, there can be no purchasing power, operative or existent, where there is no material substance of recognized value in form for active exchange. On one side there may be moral force, personal suasion, physical compulsion, or the price of privilege, but the other side must "deliver the goods." In every purchase or barter exchange one side, at least, must present or tender a material substance of recognized value, containing human cost, before purchasing power can be operative, and to obtain such material substances it is necessary that human cost be applied in productive effort with a resulting *increase*. The substance of the increase, coming of applied human cost, can pay for liberty, can pay for privileges, and can pay for money; since the object of bondage and obstruction and of hoarding money is to obtain of the products of applied human cost.

Purchasing power has its origin in productive effort and its volume is the market value of the increase coming of the applied effort. A man may receive wages for his

efforts—his labor—yet it is not his efforts but the resulting increase of material things coming of his efforts which evolves, through exchange, into purchasing power; since his efforts, while entirely satisfactory to his employer, may have been expended in personal service where no increase could result, and what he receives comes from some other and previous effort which was applied in producing an increase. An increase of material substance, evolved from the resources of nature by human cost and having recognized value, is absolutely essential in generating purchasing power. While physical force may threaten, while the possessor of a natural resource may demand, and the owner of accumulated wealth may exact, threats and demands and exaction can only result in pain and oppression and denial if their object—a portion of material increase—is not forthcoming. Theirs is but the power to distress and deny, while the increase has the power to make payments and relieve. The increase is the object and the origin of purchasing power.

But increase does not, necessarily, mean material enlargement; the growing value of development toward use is real economic increase. To locate a suitable pine-tree in the forest adds nothing to its material bulk, but it is an addition to its value in the development of a needed spar for a ship. The cutting, the slabbing, the scoring, and the hewing, while reducing the bulk, are adding still more to the value by the human cost of development toward use. The hauling, the shaping, and the hoisting into position are adding more human cost and recognized value until, complete in itself, it becomes a part of a finished product—the ultimate object of which is yet to come. The ship, an economic increase, a finished product within itself, is the pay within itself for all the human cost in its development. The finished ship is the exchange value for all the material and supplies which entered into its construction. The materials and the food supply of the

workmen were all of human cost and were all purchasing power, and the ship is what they purchased. The question of ownership after completion is entirely foreign to the principle under discussion, being a matter of equity between man and man.

Economic increase, which generates purchasing power, is a process and not an act; inception, planning, execution and appropriation, all requiring time, are human costs which must be covered in the price which measures relative values. An article may be mechanically complete and not commercially complete, an increase of price being necessary to cover costs of shipping, booking, storage, retailing, handling in final delivery, together with the interest on the necessary capital to carry it from the initiative of its origin to the ultimate consumer. All costs must be covered in the selling-price if each party contributing to the finished product receives his share of the purchasing power which the finished product generated during its process of evolution from inception to ultimate consumption. The selling-price, being the recognized purchasing power of the product, will measure the value of what it will buy of other products which are offered for sale on the market. The epitome of buying and selling is direct exchange, nor does the longer process where several deals are necessary—each deal adding to costs—change the involved principle of paying for product with product in ultimate consumption. The principle is only obscured and not changed by the use of money, since products buy money and money buys products.

Money, no matter what its intrinsic value, is but a space-filler between effort and satisfaction, a receipt for the value of what a man has parted from and the evidence of what value he is entitled to receive. Gold is an increase in the season of its production and never can generate more purchasing power than its recognized value at that time. Whenever it buys a product it is bought by

a product, and the product being the object of the transaction it is the product which generates the real purchasing power. Nor can the money buy the product when the owner of the product has greater need of the product than of the money, while the need of the product makes the owner of money more anxious to buy.

While purchasing power has its beginning from the incentive to produce an increase it has its ending in the satisfaction coming in the use of the increase. The ship was all increase until it became a finished product in itself. Every part of its construction was paying wages and profits which were buying what those engaged in furnishing material and labor might need, but on completion this all came to an end. As a finished product, it has no further need for more material or more labor, and those who have been engaged in supplying these needs must now turn to something else to obtain purchasing power, since the ship has undergone an economic change and can generate no more purchasing power. By consuming all the material and labor necessary to its construction it has consumed itself, since its entire construction is but consumed constituent parts. Each constituent part, complete in itself and having a purpose and a value which has generated purchasing power, is taken from the market and loses its identity and individuality in the concretion of the ship. Each part being consumed by concretion in the ship, the ship itself becomes consumed in concretion by inurement to ownership and dedication to purpose. As a product it gave employment which generated purchasing power equal to the wages paid and the profits on the material consumed; but completed it becomes a tool of commerce and must assist in producing an increase in order to make itself profitable to its owner. But the ship does not pay the profit on its cost; it is the increase which it assists in producing that generates the purchasing power which pays to its owner a profit on the cost of his ship.

As the object of the ship is to assist in producing an increase of products it is the increasing production which employs the ship and the labor which mans the ship; and it is the purchasing power generated by the increase of products which pays for the use of the ship and the wages of the men.

The increase is the object of productive effort. The value of a factory, a ship, or a farm depends upon productive increase for maintenance as much as labor depends upon an increase of product for its wages. The factory which fails in producing an increase must deteriorate to the price of second-hand machinery, and if it fails to respond at that price to the call for increase it must pass down to the junk value of the raw material in its construction. The increase not only generates purchasing power but gives value to all other forms of fixed property. The mansion on the boulevard with its lawns and shady walks and its air of luxurious ease, far from the noise of productive life, is non-productive and must be fed; and reaching out to growing crops and whirring wheels, where the increase is being generated, are links of stocks and bonds, of rentals or high fees, which connect with the growing increase and secure all that may be needed. The mansion was an increase in the season of its building, and generated a purchasing power by its employment of labor and its use of material. But that is of the past, and while it might sell for a neat sum of concrete purchasing power in the form of basic money, its owner could not afford to use the money to buy for his consuming needs. To so use the money obtained from the sale would be squandering an estate and would indicate financial embarrassment or poor business judgment. To sell the mansion and buy another of its kind, or to buy our ship, would develop no new business which could employ labor, since each has ceased generating purchasing power with which to pay wages and for material. Such

buying and selling can not be classed as commercial transactions, since commerce must deal in the growing increase which is commercially incomplete, so that labor and capital costs in transporting and selling can be covered in the selling-price. After products are mechanically complete, commerce must add its costs to the increase and generate a purchasing power with which to buy for its consuming needs; otherwise it would be as with the factory which failed in production. To sell the mansion and buy for consuming needs would employ labor and capital in producing for those needs, but it would be analyzed as the increase of products generating a purchasing power with which to buy the money obtained by the sale. But to use the fund obtained from the sale to build another mansion would be to generate purchasing power equal (for illustration) to the cost of the new. This use would result in an economic gain of a new building being added to material wealth; the increase in purchasing power generated would be the sum of the wages paid to labor and the profits on the material consumed. The economic net gain is the sum of all that is of new construction. To the owner it is but an exchange of the old for the new; but to labor and to the material supply men it is an increase of purchasing power which has enabled them to supply their consuming needs.

While purchasing power has its origin in increase, and is subject to the natural law governing increase, its distribution is subject to human customs originating in lawlessness—somewhat legalized. Obtaining purchasing power does not necessarily imply the production of it. The sheer force to obtain must imply something to be obtained or it fails in being what the term implies. A wage-earner might say: "My purchasing power is the sum of the wages I receive in payment for my work." And he would be right in the personal effect upon himself and family, as that will be all that they have for their use; but when

he complains that his wages are not adequate compared with the result of his labor he is entering a claim that he is not receiving purchasing power equal to his earnings, an undue part of which is retained by his employer.

A man separated from increase is compelled, by necessity, to seek employment where an increase may be produced by applied effort—called labor. He meets the owner of a natural resource from which an increase may be developed by applying his efforts, and they enter into an agreement whereby a certain amount of effort, measured in terms of time, may be applied to the resource at a rate of payment, measured in terms of money, and he enters upon the application of his effort. At the stipulated time of settlement, the increase being satisfactory, the employer pays to the laborer that which represents his portion of the increase; and on his way home the latter meets another man who is in need of the life-giving value of increase and who offers him the persuasive power of a gun, and settles with him by relieving him of all the increase value left to him by his employer.

As life is largely a gamble, we might call the first settlement a *deal* and the last settlement a *trick,* and while the principle involved is the distribution of purchasing power, the object in each settlement was to obtain of the increase. But if the deals are too stringent and the tricks too frequent labor will *strike* on the deals and resort to the tricks in supplying its needs—self-preservation being the first law of Nature and the line of least resistance the most natural to follow.

All increase, evolved from the resources of Nature, which requires human cost in the form of labor and a waste of previous products of labor (capital expenditure), must generate wages for labor and profits on the waste (interest on capital.) This increase being new and a net gain over all previous production or development, and the wages and profits generated by the increase being

recognized on the market as purchasing power which can buy and consume, the origin of the purchasing power must be as evident as the origin of the product. But, when the wages and profits generated by the increase are equalized in the market against other products they automatically become cancelled, one against another. One set of labor and capital is engaged in producing an increase —say, stoves. Another set of labor and capital is engaged in producing an increase—say, tables. This increase of stoves and tables constitutes a net gain to material wealth; since, on being sold, they are consumed in concretion—that is, they remain in existent use a long time, possibly the life-times of the consuming purchasers. Now, as this net increase has generated wages and profits which, in sales, evolve into purchasing power, we will assume—although the process is more complicated—that the purchasing power generated by the increase of stoves buys and pays for the tables and that generated by the increase of the tables buys and pays for the stoves. In the buying and selling each party has received and consumed, in concretion, that which they needed but did not produce; but, it will be observed that while the goods are existent and still new the purchasing power is exhausted, having been cancelled by the exchange. While these goods are of more value in their use than when on the market, their exchange value is obsolescent; even if they remain untarnished, their purchasing power, if used, will wane with time, unless a freak of fancy calls them antiques. But the real principle involved is that to again put them upon the market can only result in loss. They can generate no more wages nor profits nor purchasing power, since they are a decrease and not an increase. Even the profit which a second-hand dealer may make in buying and selling them is but salvage, being only a part of the loss suffered by the one from whom he buys. And the economic loss is still more, since every article of sec-

ond-hand goods re-entering the market, with wages and profits cancelled, generates no corresponding purchasing power with which to balance sales; and every such article must come in competition with similar articles which are generating wages and profits, and, if purchased in preference on account of price, operates to check the increase which is generating our purchasing power. For goods, or any form of construction—such as factories, ships, storehouses, and dwellings—which have been consumed in concretion with the wages and profits of their day of increase, adjusted to a past market condition, to re-enter the market in competition with new goods and construction must cause a check to increase, since they generate no corresponding purchasing power. To exchange that which has been consumed in concretion for other concretions will generate no more new business, with wages and profits, than an exchange of moral force for good advice. However, any advance in the value of the land on which the buildings may stand—an increase from which profits may be drawn—is not here considered. The deduction applies only to such increase as requires human cost in its development.

A commission of eminent learned men reported that production seemed to have increased faster than the ability of the people to buy and consume. If it is logical to assert that the selling-price of a product, which covers all cost of production, is not sufficient to pay for other products of equal cost and price, then they may be right. But a careful analysis shows their deduction to be as logical as that a man's egotism can become so exalted as to cause him to overlook his own self-importance.

However the situation may be analyzed, it seems clear that the trouble does not lie in production—the factory and the wage system—since productive force is wedged between the cost of raw material and the market price.

Economic embezzlement must be sought elsewhere.

Chapter IV.

MIXED IDEAS DEFINED.

One of our senators, in discussing a well-worn subject, was accused by a fellow-senator of "threshing over old straw." He retorted that he was only turning it over with a pitch-fork.

The writer is sorry to say that it seems necessary to a full understanding that some old straw be turned over; not for the sake of raising a dust or flourishing a pitch-fork, but that the reader may fully understand what is meant when certain terms are used. So, in disturbing this old straw, it is not with the idea that another grain of truth may be found in it, but *to so arrange* and define it that the little truth that has been threshed out may be better seen.

In beginning this work, a goodly number of standard works on political economy were procured with the idea that they would be useful as reference and in suggesting new thought; but the new thought suggested is that none of the writers ever had practical business experience, while, as for using them in reference, any idea that could be proven by one could be disproved by another, much of their space being devoted to criticism of the ideas of others.

In looking over the works of those old writers, one can hardly help being struck with the realization that they were writing for their day and not for ours, for the conditions that confronted them and not for the conditions that confront us. While other writers on economic subjects preceded Adam Smith, he has nevertheless been

called the "father of political economy;" for he was the first to analyze the whole field of economic inquiry. Of the earlier English writers, Smith, Malthus and Ricardo, it might be said that their habit of thought was engendered by war-time conditions, with the stress on sustenance. Their problem was how to adjust an increasing population to a shortage of necessities, while we are confronted with the problem of adjusting a surplus of produce to a population which some noted people believe should rear larger families.

Adam Smith wrote during the period of our Revolutionary War; Malthus was formulating his theory of *necessary destruction* during the French Revolution; while Ricardo did his thinking to fit the conditions of the Napoleonic wars. Yet these three writers, with a habit of thought molded to their environments, have provided the basis of all text-books now used in our educational institutions. Of these three, Malthus certainly had the greatest ingenuity and the least logic. In his "Essay on Population" he propounds a theory on the increase of population that fails by only about twenty billion of producing a correct estimate for a period of one hundred and twenty-five years. His theory that population would double every twenty-five years, while sustenance could only double in about one hundred years, certainly made a dark outlook for population, and the only relief from starvation that he could see was war and slaughter—although he did suggest artifical restraint in reproduction. Had he reversed his estimate he would have been fairly right, as population about doubled in the one hundred years after his writing, while sustenance doubled each twenty-five years of the same period. Could he have looked ahead to our industrial census in the good year 1910, or could he have consulted with our Colonel Roosevelt on the proper size for families, his famous essay would never have been written. But in his day the theory of slaughter to prevent starvation won

for him fame and social standing, as it unloaded the responsibility of suffering humanity from the privileged few onto God. After reading Malthus the privileged few could view starvation and pray with a clear conscience.

"Once fixed in text-books, always fixed in the minds of the people," it might be said, since it is so hard to break away from old ideas, however mistaken they may be. In spite of the fact that Malthus overestimated the increase of population by about twenty billion, editorial writers have, in the past few years, pointed to the rising costs of living as proof of the Malthusian theory—as if the world were confronted by a shortage in the necessaries of life.

But there is one point in regard to which both Smith and Ricardo recognized a difference, and made a distinction that our American writers fail to preserve—Henry George excepted. This is in the classification of land as differing in nature from capital and wealth. This, again, shows thought and logic engendered by environment. In England, a landed aristocracy having no part in commerce could easily hold a social supremacy over even greater wealth in the commercial world. A leasehold, even though it carried the greater portion of the income from the land, could not elevate the holder to the social standing of the title-owner. This irritating condition made it very easy to distinguish between land-owners and capitalist, and to carry the distinction between the parties on to the nature of the substance that gave to each his standing, regardless of his merit. In America this was different, as land ownership was incidental to capital development and social distinction was given according to income—as soon as the owner could develop leisure and properly use his knife and napkin. But in our larger cities many of the finest buildings are now erected on leaseholds without attracting attention; and irritating social distinction—while on the increase—is hardly noticeable in connection with land

ownership, the distinction, apparently, being conferred by "old family" rather than by land titles. Land ownership, not conveying any special social privileges in America, did not attract any special attention from economic writers; some of them even classed land and labor with capital, saying "a man's labor is his capital," and thus making no distinction between land, labor, capital, and wealth. To put land and labor in the same classification is equivalent to making no distinction between the farmer and the land of his farm; while to classify labor with capital is equivalent to making no distinction between the farmer and the fertilizer he may use to increase his crop; while, again, to class land and capital as the same is making no distinction between the natural and the artificial—between the works of the Creator and the works of man. land having been here before man came.

This may all seem immaterial for the production and sale of goods, just as, at first thought, it may seem immaterial whether a man is breathing a mixture of oxygen and nitrogen or of oxygen and hydrogen, or whether the air contains a larger or smaller percentage of carbonic acid gas, so long as he gets a full supply of oxygen. But since land, labor and capital are all elements of cost in production and sales, it is essential that distinctions be made wherever differences exist, to the end that each may be charged and credited in the distribution of the product in which they are combined as elements of cost.

The real difference between land and capital is the difference between the wilderness and a teeming city, the difference between what our forefathers found on this continent and what is here today. While much of this difference should be called wealth, it was, in the time of its development, all capital. One writer has said:

"Labor applied to land produces wealth, and that part of wealth which is used by labor to produce more wealth is capital."

While some writers draw very fine distinctions between wealth and capital, even to the potatoes that a farmer may eat or plant—with logic sharp enough to split a potato, planting the seed end and eating the other end—calling the seed capital and the food wealth, they yet fail to see any difference in the nature of a natural resource, the labor that works it, the tools employed, and the produce coming of the labor.

It is really idle to attempt a fine definition between capital and wealth, as much so as to define between boyhood and manhood. We see the boy and later the man, but the question is whether the dividing line is at the first long pants, the sprouting of the moustache, or when he proposes to his best girl. The line is somewhere along there; and he may feel and act the man, and then a disparaging remark about the moustache or a negative from the girl may put him back into the boy column. Capital today and wealth tomorrow, only to be converted into capital again next week, is the dividing line between the two. If active it is capital, if idle it is wealth.

But the difference between capital and wealth on the one hand and land and land value on the other is material.

Land, in the economic sense, includes all the resources of nature. It is nature in the crude, the pasture upon which man is turned loose that he may work out a civilization and the problem of his existence. Land, so far as man is concerned, is indestructible and eternal, and while he may slightly change a water-course and fill in a low place here and there, it is beyond his power to make any change that will not in time be lost in the changes of natural adjustment. Land contains no human cost, as does capital and wealth; and all labor improvements in the land are capital to the extent of their full value until discernment fails to notice their beginning and their ending. But there is also a difference between land and land value;

the difference being the value, which is subject to change while the land is not.

While a man may easily reason the difference between land and capital, it is more difficult to reason the difference between land value and capital, as land value can be capitalized and transmuted into capital—so also can labor. In the last analysis, land value is a misnomer: the word value being used here as the relation which one thing bears to all other things on a selling-market, utility value not necessarily being related to selling value.

Land stands in the oldest and most universal relation to all that is human, while value is real only in relation to human needs and desires. Land has no human cost, while value is only related to what is human. Capital and wealth have a human cost, superinduced by the higher needs and desires of man as he rises from the primitive in the degrees of civilization. Land remains a fixed quantity. Capital and wealth vary with human effort, being consumable and destructible; and their price value bears a relation to their human cost, whilie the price value of land bears a relation only to human numbers and their quality. The more dense within reason the population, the more effective is labor in producing capital and wealth, thus reducing human cost in living expenses. An increasing need for capital and wealth can be met and provided for by an increasing human effort without an increasing price, while an increasing need for land can be met only by an increasing price. As the improvements on land are capital and wealth, and not an increase of the land, and as its price value increases with increasing population, regardless of improvements, we must conclude that land value is in reality man value. This may be evidenced by the simple fact that a man in a new country is more effective to his own benefit in his earning capacity—land being equal—than in a thickly settled community, even though the capital and co-operation of the community may

give his efforts double the productive effect they would have in the new settlement. The difference in productive results of labor in a thickly settled community, as compared with the new settlement, must be credited to capital, while the lower wages of the thickly settled community should be charged against land value, the price of the land absorbing the value of the man.

But, before leaving this topic, it may be well to call attention to the difference between capital and capitalization. Capital must at all times be actual and reasonably active, while capitalization is always nominal and may be prospective only. Capital is that part of wealth and that part of increase employed and appropriated in generating more increase, while anything, from a gold-mine to the golden rule, from a franchise to a flim-flam, may be capitalized. Capital is always worth one hundred cents on the dollar, while capitalization may range from one thousand cents on the dollar, actual value, to a par with sucker bait. Capital is capital, active, progressive and increasing, otherwise it would not be capital.

To revert to the difference between land value and capital: Capital is an active factor, associated with human effort in producing an increase. Land value is an active factor, associated with speculation in absorbing the increase. Any increase in capital tends to reduce the cost of production, while any increase in land value tends to increase the cost of production. One is production, the other is obstruction.

Capital and land value may have been wedded in the sanctuary of Mammon. but a divorce should be granted, even on the limited grounds afforded by the laws of New York, by any impartial judge. It is high time that capital sued for divorce.

To class the minerals, the forest, the wild animals, the fish, the wild fowls, and the spontaneous growth of fruits and flowers as *natural wealth* would be reasonable if it

were necessary to a better understanding of economic relation; but, even as natural wealth, they could not become capital until fashioned by labor to human use. Wealth and capital, to be such, must not only have a selling or producing value, but must have the touch and finish of human cost. The mere holding of land—any natural supply—out of use until human need gives to it a selling value does not convert it into capital or wealth; nor does capitalizing it for sale or use change it to capital or wealth. The needs of humanity and not its labor have given to it a value—a human value—and the price that must be paid is the price of privilege and not the price of production. This value, containing no human cost, cannot be measured, as can the product of a factory, by labor cost; it must be measured by human needs. It is not a question of how much labor has been expended upon it, but of how badly humanity may need it; the profit coming of the inconvenience to the public of its being held out of use. While this price contains no human cost, except that of inconvenience to its owner during the time that the labor of others was developing its value, it can nevertheless be paid only by human cost. Whatever this cost may be, it enters into the cost of our factory output—the cost of crude raw material—and must be included in the retail price; for price must cover cost.

The deduction, right or wrong, that land and land value are not capital is here assumed that the reader may understand the word capital in the meaning to be used. And it should be understood, further, that the writer fully realizes that the higher the royalty cost of crude raw material the more capital a factory management must have to carry the product on into the hands of the retailer, and the higher its selling-price must be.

Political Economy has been termed the "dry science;" but when one attempts to follow two or more writers on economic questions he will naturally question the judg-

ment of anyone who will call it a science at all. But, by reading several leading works at the same time, it really becomes interesting, if not amusing, to note how far they can differ on the essentials of every-day relations between men of varying interests. We might almost as well bunch the writings of Moses and David with those of Tom Paine and Bob Ingersoll and call them all a science. Much of this difference seems to be in not having a common understanding of the words and terms used, since to express an idea on economic relations, between man and man, words must be used which convey a very different understanding when used in other connections. Take the word "rent" for instance. Ricardo limits it to mean nothing but the price paid for the use of land; buildings and improvements being capital, and "interest" that which is paid for use. Henry George agrees with Ricardo in this, but goes him one better by extending the meaning of the word to cover the purchase price of land, since to buy is to discount all rents. Henry George endorses Ricardo's "law of rent," while John Stuart Mill uses a very ungentlemanly Latin expression to show his disapproval. "Rent," as commonly used, may mean the returns when anything is let or hired for pay. So, when the word "rent" is used, it may convey different meanings to different minds.

Our economic vocabulary lacks words which might fully convey closely drawn ideas in the economy of business relations: as, for instance, specific words to define differences in the nature of what may go to make up costs that must be covered by selling-price. While the language is rich in words that express and exalt religion and patriotism and glorify love and beauty; yet when it comes to the right and wrong between man and all other men there seems to be a want of words, as if in the time when language was forming there had been no such ideas to express. *Might* made the *right* and maintained it so long as the might could prevail. Rights so established needed no arguments

for or against them. Words that would best stir up prejudice and engender hatred were more fitted to the condition, since avarice and not justice moved the political changes. But, in the generations since justice began to pervade humanity, there have been appeals to reason which failed for lack of words that could convey the desired meaning without exciting prejudice and hatred. As it is, some ideas must be whittled out, and even painted in different colors; for some persons are economically color-blind, seeing through their pockets at only a certain angle of light.

Take for instance the word *interest*. The word "Usury" was coined and formerly used to designate that which was paid or to be paid for the use of borrowed money. It had but one meaning, but, having fallen into disrepute through the rapaciousness of some money-lenders, the word *interest* has with no reason been substituted. This extension of use leaves no word that can specifically designate the natural returns or income from capital use and expenditure, as distinguishable from the income on money loans. To loan money is not to use it to any purpose; it is but to part with it that another may put it to use. While it is immaterial what word shall be used to designate that which the lender receives it *is* material that a distinction be made between that which the borrower—the user—receives as a fair return coming of its use. Some use the word *profit* to designate the returns for capital expenditure; but this word has a broader meaning and is not specific; being frequently used to designate margins where some must lose that others may gain. Besides, returns for the use of loans are justly due to the lender, even though the borrower has made no interest, increase, profit, or whatever it may be termed, by its use. The word "profit" is commonly used to designate a margin over and above ordinary bank interest; since it is common practice for stock companies to pay dividends, varying from 4 to 8

per cent, and place a margin of earnings in a fund called "undivided profits." This fund acts as a balance-wheel between profit and loss, from which dividends may be drawn when none are earned, and from which, if it continues to accumulate, "a melon may be cut" in the form of extra dividends or an increase in stock. There may be profit even in inhibition, for to prevent loss is profitable. A manufacturer, in times of business depression or cancellation of orders, may borrow money and store stock at an actual financial loss, yet with a profit in maintaining his prestige and his working organization. All that may be saved by strenuous effort from fire and flood is clear profit, bearing no relation in nature to a profit that may come on a speculative investment where increase has been suppressed rather than induced.

Interest is one of the overworked words in our language, varying in meaning with the connection in which it is used. It may mean attention, participation, influence, advantage, concern, regard, division, share, increase, profit or loss. While its use to mean the return or pay for borrowed money, and the added amount made obligatory on deferred payments, is not good word-logic, to try to change it would be as unavailing as to try to persuade people to use their left hands where now they use the right. As much of the misunderstanding among economic writers—or among their disciples—results from the use of words in different senses, it might be well to define *interest* so that the reader and writer, in our case, shall have a common understanding. We will therefore, right or wrong, classify the types of interest as follows:

Business Interest represents the productive investment in which a man may engage. The investment, being made with expectation of returns, is capital.

Commercial Interest is that which he pays for moneyed assistance, borrowed to further the productive force of his investment.

Economic Interest is the increase coming of the activity of his investment, which generates the purchasing power that enables him to pay the borrowed assistance, maintain his capital, and pay a dividend to himself as capitalist.

The same man may be entitled to wages; even though he is working for himself, his earnings in superintendency should not be credited as interest on his capital, as attention made it possible for his capital to produce a greater increase.

Much misunderstanding has resulted from confounding economic interest with commercial interest. Henry George makes no distinction, and, while he clearly defines economic interest, many have misunderstood his meaning, having their minds firmly fixed on commercial interest. Many writers, not cutting as deeply as Henry George, have considered commercial interest only and defined it as *the price of abstinence.* This shows a lack of analytic thought, implying that one party has refrained from engaging in profitable business and accepted a bribe to keep out of the field. Commercial interest is the price paid in co-operation where one party, being relieved of all responsibility, accepts a fixed sum as his part, while the other assumes all responsibility and retains the profit of the investment.

Community co-operation becomes more evident with a better understanding of commercial banking. That such co-operation, as commercial loans, is profitable and mutually agreeable needs no other argument in proof than to point to its long continuance among business interests that could easily change their capital from investments to loans or from loans to investments. That commercial loans constitute co-operation needs no other proof than the fact that the commercial interest on the loans and the economic interest on the productive capital are paid from the increase generated by their joint use. But commercial interest is a small matter as compared with economic interest in relation to the total increase.

To follow economic interest further runs us into consideration of the *Wage Fund.* And here, too, we find the same jumbling of opinions—not ideas—resulting from failure to make distinctions where differences exist.

Had Adam Smith followed instead of preceded Malthus in writing, succeeding writers might not have handled the question of labor and capital in such a manner as to leave them antagonists instead of friends. Adam Smith gave to labor its due recognition, but did not carry it out to any logical or illogical deduction, as no question had then been raised affecting its relative importance. But, Malthus, to fit the condition of his day, classed labor practically as an almoner, subsisting upon capital *allotted* to its employment. While this classification tended in no way to satisfy laborers, it was entirely satisfactory to those who were looking for justification, and they were willing to pay for it. The helplesness of labor at that time, its needs for subsistence, with laws and customs that permitted of peonage and the seizure of men for military service and even for service on mercantile ships, all tended to lower and degrade; while the scarcity of capital in war times, and the uncertainty of profitable returns, made it really appear that it was allotted, and the result a lottery.

Ricardo, following Malthus, and not yet free in impression from the effects of war, did not antagonize the profitable opinion of those who were more than satisfied with the *Malthusian Theory.* He sums it up in these words:

"Population regulates itself by the funds which are to employ it, and, therefore, always increases or diminishes with the increase or diminution of capital."

He also considers the effect of "displacing labor by capital."

When we take into consideration the fact that one hundred years ago Ricardo believed that capital was displacing labor, and when we take into consideration the difference between his day and our day, it would seem

that his conception of capital was about equal to a Georgia mountaineer's conception of the size of the earth. For the first time in his life the old man had come to Atlanta, fifty miles distant from his home, walking all the way. "If the world 's as big 'tother way as she is this way," he remarked, "she's a whopper."

John Stuart Mill, in modifying the Malthusian theory to fit the world-wide panic of 1837, and the Irish famine of 1846, says, in his "Principles of Political Economy:"

"Self-evident as the thing is, it is often forgotten that the people of a country are maintained and have their wants supplied, not by the produce of present labor, but of past. They consume what has been produced, not what is about to be produced. Now, of what has been produced a part only is allotted to the support of productive labor, and there will not and cannot be more of that labor than the portion so allotted (which is the capital of the country) can feed and provide with materials and instruments of production."

About the time when Mill was formulating his ideas, a man moved from Vermont into the forest of southwestern Michigan, building his cabin on a tributary of the Kalamazoo river, ten miles from the nearest settlement. The writer has it from a son of this man that he brought with him as his working capital a rifle, an ax, a broad-ax, and a few carpenter's tools. Walking ten miles morning and night, he worked for one of his nearest neighbors, clearing land, for which he received, as part payment, a yearling heifer. The first winter this animal was fed on buds of trees that he was felling for his own clearing, and she was covered with a deer-skin to protect her thin form. The second winter she and her calf were wintered on cornstalks, the first crop. About ten years later this man, assisted by his sons, had a fair farm, a better house, a good ox-team; what was more, he had constructed a dam across the stream, had hewn building material from the forest,

and had constructed and was running a saw-mill. The mill, when it first started to cut lumber, contained no iron bolts nor spikes nor nails; the whole was fastened together with wooden pins and keys. Even the log-carriage and its track were all of wood, as were the ways and fastenings of the saw. To obtain the saw was the settler's greatest problem, as no dealer within the range of his trade relations carried such a saw in stock. He actually had to raise the cash to pay for it. That was a trial, for, having devoted all his available time to the construction of the mill, he had no farm crops nor furs and pelts to sell. All this while his neighbors had lived better than he, but he had become a capitalist.

Now, as this was not an unusual case in the early settlements, will some one who still believes in the Malthusian theory, and believes that capital must be allotted in order that labor be employed, please tell what capital was allotted, and who allotted it, to give this man employment?

And yet, the logic of these writers is not so much at fault as are their premises. Labor is of two classes; so, also, is capital. Labor of the one class is productive and and of the other non-productive, while we have productive capital in one class and capital as a product in the other. Henry George is the only writer who gives any recognition to the difference between productive and non-productive labor; but he barely mentions the difference, then bases his argument on productive labor, without again mentioning or holding the difference in relief. It is needless to say that Mr. George does not agree with Ricardo and Mill in their premises that capital is allotted to the employment of labor.

It is possible that different environments are responsible for these different views. It is fairly safe to say that Mr. George had been at some time in his earlier life employed at productive labor, and could see and

realize that his effort was developing the capital from which his wages would be paid. It is also safe to say that Malthus, Ricardo, and Mill, in all of their respective employed capacities except their writings—were non-pro-productive, and capital had to be allotted whenever they received any wages—or salary, if that would please them better. Therefore, their argument is based on the conception of what can be used to pay wages to non-productive labor.

Productive capital and productive labor constitute productive force. Productive force generates the increase from which all payments are drawn and by which all values are maintained. A division of this increase gives us a wage fund and an interest fund—neither drawn from the other.

Productive labor may be divided into two classes: *first,* that which employs and directs capital; *second,* that which is employed and directed by capital. Productive labor is human effort devoted to the production and distribution of the increase.

Productive capital is of two classes: *first,* that which is employed in generating an increase; *second,* that which is employed in distributing the increase. The capital used in transportation is of both classes, since, in generating the increase, raw material must be gathered from the source of supply to the assembling factory and the fashioned product must be carried to the ultimate consumer. (The word "fashioned" is used advisedly, as the product is not economically finished until in the hands of the ultimate consumer, with all costs covered.)

But we have capital as a product, as well as having productive capital. Ricardo classifies capital as *fixed capital* and *circulating capital.* Since many people believe that capital gets "fixed" so that it can not circulate, it may be well to state that Ricardo did not mean it that

way, even though he worked from the inside as a member of the Stock Exchange.

For lack of differentiating terms, "capital" has as many meanings as the word "stock," which may mean anything from a bean-stock, hogs, sheep, hens, horses, cattle, cordwood, lumber, merchandise, bodies of trees, to a stock of ideas or a piece of paper that represents a share of capital. As "fixed" and "circulating" are words of different meaning, they will serve as well as any to indicate a difference.

According to Ricardo's idea, fixed capital is that of a permanent nature, or that which wears out slowly, such as factories, store-houses, machinery, tools, teams, and transportation facilities; while circulating capital may be expressed in the words *goods* and *money*. In this sense a merchant's store would be fixed capital and his goods would be circulating capital. But in reality his goods—while circulating capital—will as a stock, constitute fixed capital maintained as a whole by constant addition.

Fixed capital is employed by labor and employs labor in producing an increase. From the increase the employing and the employed labor receive their wages—not from the capital: as the manufacturer does not sell his factory to pay himself and his help. Fixed capital is not paid out in wages. While the stock of merchandise is made up of circulating capital, as a stock it is fixed capital, and the added price is the increase—necessary to cover cost of selling and interest on the capital of the stock. It is the trade that employs the sales labor, and not the capital comprising the stock; and it is from the added price—the increase—that the sales wages are paid: wages and interest being drawn from the increase and not from the capital.

That capital is *allotted* to the employment of labor is a fact that no argument can change; otherwise, how could public officials, college instructors, school teachers, and professional dues and fees be paid? That the general

professions are assistant, directly or indirectly, in producing the increase need not be argued; we must bear in mind only that they do not draw directly from the increase, as do capital and productive labor. The increase is divided into three portions, not by mutual agreement, but by stress of conditions. The first of these is the ground rent royalty cost of the raw material—which is arbitrary; the second, the wages paid to labor—which may be varied by conditions; the third, the interest to capital—which is the margin between royalty and labor cost, and the selling-price. From these three portions allotments may be made, on need and pleasure, for the payment of non-productive labor; but these portions are diffused by the allotment. All of this is immaterial and only necessary to clear the atmosphere of political economy of some illogical premises.

But there is one more economic illusion that might be noticed; it will require but little space. We will revert to the quotation from John Stuart Mill:

"Self-evident as the thing is, it is often forgotten that the people of the country are maintained and have their wants supplied, not by produce of present labor, but of past. They consume what has been produced, not what is about to be produced."

If that isn't a logical stunner, what is it? It reminds one of the old recipe that begins, "First catch the rabbit." Possibly, until after Mill wrote that, no small boy could fully realize that he couldn't eat cake until after it was made. Mrs. Fawcett, in her "Political Economy For Beginners," also fears that it might be "forgotten that many months must elapse between the sowing of the seed and the time when the produce of that seed is converted into a loaf of bread." And her deduction is:

"It is, therefore, evident that laborers cannot live upon what their labor is assisting to produce, but are maintained by that wealth which their labor, or the labor of others,

has previously produced, which wealth is capital."

And Ricardo again:

"Population regulates itself by the funds which are to employ it, and, therefore, always increases or diminishes with the increase or diminution of capital."

Henry George assails this line of reasoning, but not with his usual clearness of logic. In Progress and Poverty, Book I, Chapter IV, to prove his point on contemporaneous production and consumption, he illustrates with milk fresh from the cow, and fruit just gathered from the orchard, as products of present labor. In Book III, Chapter III, Progress and Poverty, he uses the milk and the fruit to illustrate interest on capital as stored labor—labor accumulated in the cow and orchard.

Such reasoning really needs no answering argument, and were it not for its evil effect of ill-feeling between capitalist and laborer it would be unworthy of notice.

That a thing cannot be consumed before it is produced is too self-evident to be logical. Even though the plowshare turned food, prepared and cooked, upon a man's plate, there must still be a lapse of time while he evelated it to his mouth. But, granted a reasonable time, from morning till evening of a day's work, or between pay days, productive labor sustains itself. Production is not an act, but a process. Nor can a thing be consumed until it is produced. It is what a man produces that sustains him, and not that for which he exchanges it. If it is the product of his labor of today that he exchanges for a thing, even though he may purchase something produced a quarter-century ago, it is the labor of today that obtains it for him. It is with his wages of the day that he subsists. He produces and exchanges a product; and whether the wheat that makes his loaf was threshed and ground yesterday, or was of the wheat that Joseph had stored in Egypt, makes no difference in the nature of his sustenance. A plowed field is not food, nor is wheat a human food. It

is not a finished product to be consumed until it is made into bread; and the final cost of making and selling a loaf of bread is fully equal to all the cost of plowing, seeding, harvesting, threshing, marketing, and grinding; and the producing and consuming of bread is so contemporaneous that most people prefer it hot from the oven. That the plow does not turn out ready-baked bread should not be charged against labor—plowing being only the beginning of the bread process and not its completion. The very fact that labor is not paid in advance is proof positive that the product of the day is what sustains the laborer, that product exchanging for what he consumes.

If we are to look at the matter of sustenance from this point of view, is it not just as logical to assert that, in issuing bonds for future labor to pay, and spending the money so acquired for present living, we have sustenance from future labor? In fact, the bonds reach farther into the future than any product for consumption dates back into the past.

The labor that earns that which pays the price is the labor that sustains the laborer.

The joint stock of political economy of the English writers and their American followers has evolved a formulae asserted to be the natural laws of wages and interest. They are based upon the Malthusian theory of the "niggardliness of nature" and run as follows:

LAW OF WAGES.

"Wages depend upon the ratio between the number of laborers and the amount of capital devoted to their employment."

"Interest depends upon the equation between the supply of and the demand for capital; or, upon wages, rising as wages fall and falling as wages rise."

Why not propound as a physical law governing the speed of horses that:

LAW OF INTEREST.

"Speed depends upon the equipollence and length of the evener; as one horse goes ahead the other flies back, and the first flies back as the other goes ahead."

If the load could not be moved, that is the only way that speed could be worked up; and if there were no productive increase, wages, if any, would have to be drawn from capital; but there could be no interest. Wages and interest, like the two horses, must move together when there is any increase, as both depend upon the increase,—in fact, are the increase.

It would much nearer fit our economic condition should some writer on political economy propose something like this:

"Wages and interest rise and fall together as production rises or falls; the increase being the joint fund divided."

But "let the dead past bury its dead." We might as well look to Fulton's ideas in formulating a text-book on modern steamboat construction, and to Stephenson as authority on present-day locomotives, as to Ricardo on political economy. Yet our educational institutions are using text-books based upon his writings, and have instructors of his school.

This chapter has been a digression from our inquiry, and deemed necessary to a better understanding. When the terms *capital* and *labor* are used in this book, they signify *productive capital* and *productive labor*. And it might be said just here that the most trying labor under the sun is that of evolving better methods and machinery in production, and in disposing of the product, that labor and capital may be profitably employed at good wages and fair interest. The problem of production has practically been solved; the problem now is to "sell the goods."

CHAPTER V.

FUNDS AND THEIR USE.

In the word "fund" we find a specific meaning, and while the use is slightly strained in some connections, it always conveys to the mind the notion of an available accumulation of capital—money or securities which can at will be put to use. But, as used here, the word has a broader meaning, covering the substance of the security rather than the paper evidence. This broader meaning is the one considered by the larger investors who finance developments; but the confiding small investor takes into consideration little other than the recognized value of the paper, since he may have no knowledge of the substance and required technicalities which give the paper its prestige value. Funds, in actuality, consist of valuable and available substance, while security represents degrees of conditional joint ownership in the substance. The security, to be secure and have a value, must be a lien upon a valuable substance and of such force as to constitute preferred joint ownership, while the ownership is rendered conditional by the security. The substance being the real fund and the securities being but evidence of the fund, the market value of the securities must not be added to the recognized value of the substance in estimating the total value of the fund. A manufacturer may deposit his note or bond in bank and, being credited with a commercial accommodation deposit, check against it in making regular payments. The bank would appear to be providing funds for these payments; in fact, the bank is only assisting the manufacturer in making his own funds avail-

able. The real funds are the finished and partially finished products of the manufacturer which will be realized upon before the security falls due and possibly before the checks fall back upon the bank. Were it not for this fund of products the bank would not have accepted the manufacturer's paper and honored his checks. The real fund is that which makes final settlement and relieves the security.

Funds are *capital* and must be divided into two classes—*funds of the accumulation* and *funds of the increase.* As capital they may be termed *principal* and *income.* These are what Ricardo termed "fixed" and "circulating" capital.

As a market for products must imply funds which can pay for products, the nature and possible use of funds regulate the market. The funds of the accumulation have been marketed and consumed, while the funds of the increase are on the market to be sold and consumed. Economic consumption being but inurement to ownership, whatever has been put to use in ownership has been consumed in so far as the general market is concerned, and in so far as competition is concerned. Before being consumed it was of the fund of the increase, being on the market to be balanced and cancelled, value against value, until adjusted to the ownership of ultimate consumers. As selling is but buying and buying is but selling, the time elapsing between the occasion when a man sells his surplus of produce and buys money and the moment when necessity compels him to sell his money and buy other produce merely effects a delay in the exchange of products, without working a change in the ultimate result. In this buying and selling, it is the fund of the increase which pays for the products of the increase, while the products constituting the increase generate the fund of the increase—the increase being the income which can be used in buying for consumption without economic loss.

For lack of specific words to convey the desired meaning, we will say that a part of the increase is consumed in concretion and a part in evanescence. That is, a part is designed to be permanent in its nature and to inure to ownership as capital or wealth, while the other part is so evanescently consumed as to leave a necessity for continuous increase.

The genesis of funds may be registered thus: Productive Force begets Increase; Increase begets Income; Income begets Wages and Interest; Wages and Interest beget Purchasing Power,—i. e., the fund which can buy for consumption without economic loss.

The only important point in this distinction between the fund of accumulation and the fund of the increase is to differentiate in its relation to the market between what has been consumed by inurement to ownership and cancelled against purchasing power, from what is on the market to be consumed by being balanced against purchasing power,—and to determine the economic difference between the two: the economic difference between what has been consumed in concretion, and which cannot re-enter the market except at a loss, and the increase of the season, which must enter the market or suffer loss.

The capitalist, as a capitalist, (capital being only what is productive) can have purchasing power equal only to the interest and profits of his capital. With this he can buy to the limit, while to spend more is a loss to his capital. Labor, as labor, can have purchasing power equal only to wages. For labor to spend more than its wages results in indebtedness. As with capital and labor costs, so it is with royalties on raw material, with transportation charges, and with commissions and profits of dealers. These costs—interest on capital, wages to labor, royalties on raw material, transportation, storage and sales margins—are the costs of the increase, and the selling-price which covers these costs constitutes the purchasing fund of those

whose costs were covered in the selling-price. To each according to recognized cost is the measure of his portion. Even though recognized cost be paid to quiet obstruction, it is recognized costs rather than actual benefits rendered which measure what each one, directly or indirectly engaged in production receives as his share of the total increase. The total increase, together with the total of its accompanying purchasing fund, comes first into the hands of those engaged in production, transportation and exchange (all producers) and of those who sell the raw material. From these, without addition or diminution, the fund of the increase is distributed to others according as they have assisted or levied tribute. The division of the increase is according to the recognized costs of the increase; the sub-division or diffusion of the increase is according to recognized dues to those who have assisted or who may have claims or liens upon those who have produced the increase.

In analyzing the principles of production and distribution, it must be borne in mind that we are in no way considering the justice or the injustice of them, whether they be existing or imagined; since what one would consider an injustice another would consider justice, each weighing the matter from his own point of view according as he enjoys or is denied a portion of the increase. While the production of the increase, from inception to final sale, is but the work of a part of our wealth and a part of our labor, the division is nevertheless among all, according as each may have a recognized claim for cost against the increase itself or against a producer of the increase.

For illustration, we have a public fund collected by taxation on recognized values. To tax anything which has no recognized value would be an expense without returns while, on the other hand, the thing or substance taxed, in order to have a known value and to be able to respond to the tax levy, must be capable of producing an

increase or of giving such satisfaction to its owner as to cause him to render in taxes a portion of the increase which he has derived from that which produces his increase. The tax fund is assessed against the funds of accumulation according to their estimated ability to produce an increase, and the object of the tax levy is to obtain of the increase. The general public, as a corporate association, has very little use for those funds of the accumulation which produce the increase, but it has a great need of the increase to repair and add to such accumulated funds as water-works, streets, parks, and public buildings. A street will not pave nor repair itself, nor will it, directly, produce the increase necessary for such results; but a tax levied upon the property value along the street will cause the property-owners to apply themselves to their source of increase with the result of bringing forth the needed means. While that portion of the fund of the increase which is collected in taxes will be of no benefit to the general public until it is added to the fund of accumulation, there can be no addition to the accumulation unless it is taken from the increase, since the accumulation is but the increase consumed in concretion.

Taxation is one form of distributing the increase. There are other and more private forms in operation. The vast army of federal and municipal officers and employees, together with our force of teachers, receive of the increase fund through taxation. The church and its needs, together with charity, receive through voluntary contributions from the increase. Doctors and lawyers receive through a private agreement for services rendered, while such non-productive wage-earners as servants receive according to average wages paid to labor. Rentals are fixed by local conditions. But all these distributions are drawn from the fund of the increase and not from the fund of the accumulation; and, whatever the process, just or unjust, the distribution in no way adds to nor takes from the total

volume of the increase nor from the resulting volume of purchasing power which it generates. This is the broad principle. On the other hand, the distribution might be levied so as to check production.

But there are times when the demand upon purchasing power is not nearly so great as at other times; times when the wage and interest funds are not called upon to buy and consume as large a percentage of the entire increase as at other times. These times occur when a larger than normal percentage of the increase is being consumed in accretion to principal. At such times increase is at its maximum, straining the limit of productive force and generating the maximum amount of purchasing power; while but little of that part of the increase designed to be permanent in its nature, such as railroad extension, new factory construction, and city business blocks, is being offered for the general public to buy.

Yet all of this increase is generating wages and interest, giving a greater volume of purchasing power with which to buy and consume that part of the increase designed for evanescent consumption. The purchasing power generated by the whole increase, being called upon to buy and consume only a part of the increase, brings on a business boom, with prices rising until the whole volume of purchasing power is required to pay the price of only a part of the volume of the increase. In effect upon the market, it is much as if a foreign market were absorbing a large part of our product and giving in exchange only that which is recognized as purchasing power; with the effect upon productive force of giving a larger and freer market where it may sell its whole product without being required to buy and consume as much as it produces and sells. The purchasing power generated by the whole produce is asked to buy only that portion which is placed on the market.

For the purpose of condensing and localizing this principle, let us suppose any small town is setting out to increase its business acitvity by constructing a large factory. Some of the capital is subscribed and paid in, and the balance is provided for my the issue of bonds. Where formerly the people were averaging one-half of their time in employment, they are now given full-time employment; one half of them are employed in the construction of the new plant, the other half in production to supply the needs of all of them; this division of labor imposing no hardship other than full-time employment where half-time employment was the former rule. Where formerly the half-time employment of all the people was supplying the necessities of all, we now find one-half the people supplying the same volume of necessaries by working full time, the result of the work in constructing the new plant being all net gain to the community as a whole. The wages paid out for the new construction constitute an increase in local purchasing power commensurate with full employment; thus the available purchasing power of the community is doubled, with no increase in the volume of what is placed on the local market for sale. The factory construction, being an increase, is generating wages and interest which evolve into purchasing power, but the value of this increase is not offered for sale on the local market. Doubling local purchasing power then has this result, that the necessaries on the market—the produce of one-half the community—will tend to double in price and absorb the full volume of available purchasing power. (The nature of this phenomenon will be explained later in the analysis of costs.)

Upon the completion of our factory we must meet another condition. As a complete product, the factory can no longer generate purchasing power from its own increase, but must generate an increase that can pay wages and interest, or else all its construction cost will be a loss. As an increase in itself it generated purchasing power that

could buy other increase; but now, with the same working-force still employed, it must generate an increase that can find a market only in exchange for the purchasing power generated by some other increase. From a product, not placed upon the market, it becomes a producer, flooding the market with its products. While the same force that did the work of construction continues to be employed, and at the same wages, there can be no more purchasing power available than when the produce of one-half the community had risen to a price that absorbed all purchasing power. Where formerly the community could be idle half the time and consume all its produce, it is now employed all the time and can consume only one-half its production. And there is, besides, a burden of poverty resting upon some who never felt it before. When a committee of the prominent business men meet to discuss wherein the trouble lies, they fail to agree. Some believe that relief must come from a foreign market, not realizing that the foreign market suffers from the same affliction. Some decide that the situation is due to a lack of purchasing power and lay the blame on the money system, not considering the fact that money is free only when business is free. Some say that the extravagance of the people has exhausted their ability to buy what they need, overlooking the fact that it was their extravagance in buying that made possible the business boom and the development of the factory. Some see the need of more protection, not remembering that with lower prices production and consumption had so nearly balanced as to create a demand for greater producing facilities. Some charge it to shiftlessness, and the latter in turn to heredity, believing the trouble to be within the people themselves and leaving it there.

While this illustration is local, the whole country is local in this principle, and so is the whole world. The development of fixed capital generates as much purchasing power—fund of the increase—as does the same value

of its own output after being put to active use. As a product, this development is not put upon the market; at the same time it is increasing available funds, and market prices rise. Later, when its own output comes on the market, there is no increase of available purchasing power coming of the wages and interest on its product, as its purchasing power had issued and entered the market in advance of its output and had been absorbed by the higher prices on other produce. Therefore, any unusual development of productive capital increases the volume of available purchasing power in advance of its own output, and thereby allows a general increase of market prices. This was the condition of the United States between 1902 and 1907. The development of productive capital was an increase that was generating and adding to available funds which could buy and consume. This productive capital was not put upon the market; but the funds that it generated did enter the market in all lines of business and, as it appeared what it really was—an increasing supply of available purchasing power—speculation prices advanced and absorbed it. This increase of productive capital generated and sent out in advance an available supply of funds that could have met and purchased all the products that were to follow these funds to the open market. But when, in 1906, the volume of output from this new productive capital began to reach the market, it found the funds that it had sent out all pre-empted by speculation prices. Instead of meeting available funds, this increase of values flooded the market and superinduced the conditions of a panic. We have here not a lack of funds, but an economic embezzlement of funds.

To observe a case of economic evolution from income to principal, let us go out to a stock farm, where we find a colt, playful and idle, but growing to be a horse by virtue of what is being done for him. Feed, care, and training are given him, and no labor asked in return.

All that is asked of him is to be docile and respond to care and training. Yet he is paying his way, paying it by his growth and development to a horse. He is an income, a growing increase, being more valuable each year. His value is intrinsic, developing within himself. But there comes a time when he can no longer pay his way by growth toward full development as a horse. He becomes complete within himself, a finished product; an economic change comes into his existence, no longer that of colt, but of horse. Feed and care can no longer increase his value, and he must change from an income to a principal, from circulating capital to fixed capital; and his future value will depend upon what he can produce, and not upon himself as a product; otherwise what has been done for him will be a loss. From foal-hood to maturity he has been an income, a convertible fund, which his breeder could have used in buying for consumption without economic loss; that is, without any loss to the productive capital of the farm. But, as Nature and not his breeder changes the colt from income to principal,—determines the economic change from circulating capital to fixed capital—this income fund must be used at or before maturity, or there will be a loss equaling the care and feed, plus interest on these as costs, that will be given the horse after maturity. Whether the breeder, i. e., the producer, sells the colt at maturity and uses the fund in supplying his evanescent needs, or whether he adds the young horse to the productive principal, i. e., capital, of the farm and spends the income from the productive use of the animal to supply these needs, he will be spending income and not principal. To spend the fund value of the colt will be no loss to the principal of the farm's productive capital, but will rather relieve it of a cost. To add the young horse to the principal of the farm's capital and the products of his labor to the income of the farm's capital, and then to sell and spend any part or all of its principal in evanescent

consumption would be an economic loss. As an income the colt had an intrinsic value, a value within himself, that could be utilized by exchange conversion to the object of his being; this object is, namely, to supply and satisfy the necessities, comforts, and desires of his breeder, except for which he would never have had being. As a principal his value is extrinsic, being that which his labor produces, the income coming of his use; this has now become the object of his being and of the care given to his comfort. Selling him (also a use by his breeder) would constitute consumption by concretion, and his value must lie in the value of his produce, since nothing can have value independent of increase—except that which may give satisfaction to its owner by resting the mind and inspiring to higher ideals, or diverting a habit of thought to the end that existence may be more endurable. In this aspect the horse could have a value as a carriage-horse, giving pleasure and diversion to children and aged people; but, by this use, while he would still be principal, he would be classed as wealth and not as capital.

Since the farm has been referred to as capital, it is best for future understanding that a distinction be made between *farms* and *land.*

A number of years ago, the writer responded to an invitation to give a little talk at a grange picnic. The women were properly complimented by praises of the sumptuous spread which nearly made talking impossible. The men were complimented by reference to the fine farms and good roads of the township and by being referred to as capitalists, as were the manufacturers of the city. But, inadvertently, the remark was dropped that a farm is not land, and the sympathetic smile that followed showed that a mistake had been made by venturing too deep into economics. They could sympathize with city ignorance; but the speaker was forest-born, and by blistered hands and blackened face and tired back knew the difference between

land and a farm. Turning to one of the oldest settlers he asked:

"Uncle, how many farms were there in this township when you came here?"

"Well," the old man answered, "there weren't any that we'd call farms now'-adays. There were only six little shanties with a little clearing around 'em."

"How much land was there in the township at that time?" was the next question.

"Thirty-six sections with six hundred and forty acres to the section, and it's all here yet and no room for any more," he answered; and then, with an appreciative smile, he added, "I see the difference; you're right."

The change in the tilt of the general smile showed that they all saw the difference. They had simply never given thought to the fact that the land—forest or prairie—was only a natural opportunity whereon a farm might be constructed; that land, like the mountain in "The Arkansas Traveler,"—"was thar when they came here."

The capital of the farm and the capital of the factory constitute, as a principal, a fund that can not be used in buying and consuming the fund of the increase, or income, without economic loss; but it may be hypothecated and a credit fund evolved therefrom that can buy and consume. But consuming on credit can only mean the exchange of a larger future income for the privilege of using a smaller income of the present. This may be done without in any way depleting principal. But consuming on credit should not be confounded with producing on credit, nor should hypothecating of principal as security for goods consumed be confounded with commercial credits.

The most careful analysis of the nature and origin of funds must prove their origin to lie in the increase coming of applied productive force. Whether this increase is designed to be permanent, as capital or wealth, or for evanescent consumption, it is, in the season of its develop-

ment, rich in wages and interest and royalties and profits, all of which can evolve into purchasing power without economic loss. With the wages, interest, royalties and profits distributed according to recognized cost, the purchasing power developed by these costs becomes cancelled as consumption ensues. The difference between no cost and the selling-price which covers all costs is the volume of purchasing power evolved during the season of the increase. Each party contributing and recognized in the cost can buy or pay expenses in exact proportion as he was recognized in the cost; but, as buying cancels the purchasing power, all that portion of the increase which evolves into capital and wealth by being consumed in concretion becomes as devoid of purchasing power as the crude raw material out of which it is made. To bring the product, with royalties, wages, interest and profits all cancelled, upon the market, in order to realize on its recognized value, must result in loss to the owner without generating wages, interest or profits. The fund of accumulation may be exchanged, one part for another, without economic loss, but such exchange will develop no new business which can pay wages and profits. To convert the fund of accumulation into active purchasing power is to exchange the present for the past, with the result of overproduction equal to the price which the old can command. This will not only check production, but must ultimately result in a general depletion, tending toward deterioration.

It is upon increase that civilization builds toward greater achievement; and with the fund of the increase it pays the price. While the accumulation assists in the increase, the desired, the beneficial value is in and of the increase.

CHAPTER VI.

THE CREDIT FUND.

In banking and commerce the word *credit* seems to be somewhat strained in its use. It is applied equally to mean that which a man possesses and which will secure an accommodation and also to mean that which he receives when becoming liable to an obligation. If he possesses credit he may be granted credit. In either case there must be a substance of value which can be made available in commercial balances and within a reasonable time. As this substance of value must be made available by the party who receives the accommodation, and as the accommodation must be in the form of matured capital, or transmutable into matured capital, it would seem that the real credit—the credit asset—is, or consists of, the specific substance of value which was the object of the accommodation. That which is granted, being matured capital, can not well be a credit, but, rather, a credit accommodation; while the credit obligation, the asset which is the object of the accommodation, consists of immature capital which is in need of assistance in reaching maturity.

That personal integrity and ability receive credit accommodations is not so much a matter of recognized honesty as that of a recognized ability to make the requisite assets available for final settlement of the accommodation. It being the assets and not the honesty which makes the payment, credits must consist of available assets. Production not being complete until final selling costs are added to retail prices, it must logically follow that products in process of production and even while seeking sales must be but imma-

ture capital, constituting credit assets rather than loanable funds. The object of capital being to assist in production and exchange, and all credit being the faith that the produce will equal expectation, it would seem that the real credit fund must be the immature capital of the developing products, since they are the real object of the credit accommodation and what must make final settlement by their values in final exchange. So, in considering the "credit fund," and its use, productive and loanable capital will not be included, since they are not a part of the developing prospect which generates wages and interest.

But, in the broad sense of the relation of productive capital to the product, credit accommodation may obtain without credit obligation. In this sense the individuals interested are eliminated from consideration, as is the case when we refer to the forces of capital and labor. The capital of a producer may be sufficient to supply all necessary credit accommodation to his own produce without incurring credit obligations. In this broad sense the borrower and the lender become co-operators in production, the joint capital—together with labor—generating the produce which pays the interest on the loan, the interest margin to the producer and the wages to labor. The private interests of the individual must not obscure the principles of production and balanced exchange.

During and since those political campaigns in which the money question was the issue, much has been said concerning the purchasing power of credit. Some have ascribed to it the functions of money, while others have classed it with debts. In introducing the subject of credits here, the intention is not to discuss banking in any of its parts, but only to bridge a moving and unsettled phase between two fixed points in economics—the beginning and completion of productive increase. The space

of time between these two points in human action is, necessarily, a credit period. Between seed-time and harvest much labor and capital must be expended; and credit the only bridge spanning the interval and giving necessary support to those who must labor and await the maturity of their growing increase.

It seems strange that the many who have written on credits should have overlooked the simple fact that Nature has imposed upon humanity a credit period in its production of what is necessary to sustenance. Production is a process and not an act. The plowing of the field, the seeding, and the cultivation of the crop are only steps and acts in the process that leads onward to the harvest, and in themselves bring no reward. The mining of coal and ore are only steps in the production of steel, while steel itself is but raw material. The cutting of the tree in the forest, the hauling to the saw-mill, the sawing and yard-piling of boards and planks are only preparations for work yet to follow. This is all credit work, producing only credit assets, which must be fed and cared for as was the colt on the stock farm. These growing assets are the young of the finished product, and credit is the lacteal supply that supports the earlier period of uncertainty, and the substantial assistance that waits upon the growing increase seeking assimilation in final exchange.

Production establishes a community of interests. The prying loose from the earth of the crude raw material is the first step in the process. In this first act there is little conception of what course an infant product will take or what associations it will form in combining with other infant products to make a useful whole—a value of utility. The first act in prying loose from Nature's storehouse these germs of increase is to give human value to dormant principles or elements. To push this forward to the sorting and mating grounds of industrial activity is to add more to this value. The ore at the furnace is more

valuable than at the mine. The saw-log in the mill-yard is more valuable than in the forest. While there has been no material change in the ore and in the saw-log, these steps in the process of production have given added value, for they have involved human cost—cost applied with an ultimate object. That the ore and the saw-log may later join to form a product, or that the finished product from the one may balance the finished product from the other in final exchange, gives them a community of interest in all the period of their credit existence.

The uncertainty, for the product of details during evolution and of the place and time of ultimate sale, and its need of assistance from inception to completion, make production a credit process. The certainty of necessity demand and of ultimate completion and sale constitute the growing products of industry safe and valuable credit assets. The simple fact that ultimate sales are but balance exchange, and that no one article can balance itself in exchange, constitutes a community of interests that compels the support of each growing product for all other growing products; for each must assist in making a market for the other in the final exchange balance. Credit, being a cost in production and sales, must associate with growth and development that its cost may be paid. The closer the association of all growing products the lower will be the credit cost.

For lack of any term to designate the transitory and evolutionary transmutation period of productive increase, it might be termed *floating in transition.*

One writer speaks of the use of credits as an invention, when, in fact, it came by evolution with the increase of production—just used, and not planned by any one. Another, in speaking of the volume of credit that may safely be used, says: "It is safe so long as it returns into itself." If strictly credit, not merging into debts nor dealing in speculation, it is entirely safe in any volume that productive increase may reach and demand. But

the volume of credit, it must be observed, cannot be measured by the number and face value of the credit instruments passing through the clearing-houses, any more than the number of farms can be measured by the number of recorded deeds, since every article floating in transition must change ownership many times and since each sale may be represented by a credit instrument. Banks handle credits, while clearing-houses handle only checks and drafts sent in from the banks; many of these are drawn against cash deposits having no relation to credit accommodations. There is but little relation, in the totals, between the volume of actual business transacted in a year and the volume of bank clearings for the same period. To measure the volume of business by the volume of bank clearings would be much like estimating the population of a city by the fares paid on street-cars during the year.

Credit, being based upon assets of actual value, must have a limit of maturity as well as a nominal limit; this limit, necessarily, must be the limit of maturity of the growing assets. As the credits bear interest, coming of a cost, so also the assets are generating an interest, coming of a cost, and the two costs being necessary to the increase are economic and are covered in the price at maturity. The limit of economic credit being the limit of economic increase, the limit is reached at the point of retail sales and not at the moment of consumption of the goods. Since production is complete when all costs necessary between the first act of production and the first act of consumption are covered in the retail price, it must be evident that decrease and not increase of values must follow, since over-time and storage in retail are a waste, while consuming without security is debt without assets. Retail accommodations are beyond the limit of credit, entering as they do at the point of dissolution where the surety of the credit parts company with that which gave it being. Credit implies surety, while debt is a deficit, an hiatus between

what has been and what is expected to be. Personal credit in retail trade is based on individual quality and not on material assets, and so can have no relation to the credit fund of political economy. Debt, being a deficit, is related only to the past; it denotes an unbalanced condition of past distribution where one has received or assumed more than was recognized to have been given in exchange—debts being unbalanced exchange. Credits must balance in exchange or become debts. As with the colt, so it is with all products. The credit period being the time from inception to maturity of the product, the limit of the credit can not extend beyond the time of full maturity, since the matured value cancels credits in final exchange. To feed the colt without requiring labor of him before maturity could result in profit, but to continue feeding him after maturity, without requiring labor, could only result in loss; the limit of his credit existence ending at maturity and not being continued on into the period of his use as a producer of further increase.

This brings us back to the question of credit as a purchasing power. The origin and limit of credit being ascertained, its use in buying and consuming should be easily determined. But this brings us to another necessary distinction—that between purchasing for production and purchasing for consumption.

From first incentive to produce, on throughout every stage of productive increase, there are purchases and sales with a species of corresponding consumption which in no way reduce volume or value, but rather increase the value of all increase floating in transition. The consumption of coal and ore at the blast-furnace contributes to the production of pig metal—a product more valuable than the coal and ore together. The pig metal is the credit asset which pays for the coal and ore and for all the labor necessary to the process. If the pig metal be iron, the consumption of more coal will produce steel, and the steel pays

for the pig metal and the coal and also for the added labor cost. The steel is still a credit asset which in itself is pay for its own development. It may be asserted as a principle of political economy, not to be refuted, that everything of value brought into being is paid for—being the pay within itself; but the questions of division and of ownership may remain to be decided. And so long as credit assets are increasing in value by nearing maturity, the credit instruments which represent their value may be purchasing power to the extent of the value. The origin and limit of purchasing power being the volume of matured products in final exchange, the use of credit as purchasing power is but to use the value of immature products by guarantying that they shall reach maturity. The credit fund being but the assets of maturing purchasing power.

But to revert to retail sales: while production is not complete until all necessary costs are included in the price, it is up to every producer along the line, from the first user of crude raw material to the retailer, to assume and settle all prior costs and to collect the added value that he may give to the growing increase. When nothing more is to be added, it becomes complete and loses value as a credit asset by deterioration—not necessarily in its quality, but because of the time and storage cost which cannot be included in the price. As with the colt at maturity, when the goods reach maturity in the hands of the retailer, they suffer an economic change. Up to this time they have been income; now, as a stock, they become a principal, with income depending upon added price and their immediate sale. The last addition of the increase is of price only; and the retailer, unlike others who preceded him in handling the goods, can not retain a lien upon an increasing asset when he sells on time payments. If the retail sale is made on installments, it must partake of the nature of a loan, to be paid from some future increase

bearing no relation to the goods so sold. A bonus must be added besides to cover interest on the loan and insurance on the risk. In all this, credit cannot constitute a purchasing power, as it contains no principle that can, in itself, make final payment; its only assets are the surety of deteriorating value and the honesty of a purchaser who has not the present means, but is willing to pay from some future earnings.

Productive and commercial credits, being the value of assets having a community of interests, must, naturally, center in banking. In commercial banking, the bank may be likened to a guy-line derrick. The mast forms the center and is the most conspicuous part. From the top of the mast, running out to substantial posts, are fastened the guy-lines, as if to hold them in position; but it will be noticed that, as the boom swings from side to side, lifting and placing loads of cash and credit, the strain comes on the posts that hold the guy-lines. These posts are the substantial factories and stocks of merchandise centering their community of interests in the bank, and the more and the stronger the posts and the lines the more the bank derrick can handle, and the less the liability of collapse if one of the lines should break.

Banks are the receivers, custodians and regulators of commercial credits. The confessors of the business world are the banks. As receivers, they make a careful and if necessary a scientific investigation of the business concern and its wares. If satisfactory, security is accepted and credit granted. What would be considered as ample security from one would not be accepted from another; from one a note is sufficient, while a secured bond would be required from another. These securities—not money—are entered as cash deposits and are subject to check, as against cash. In these commercial accommodations the bank is not really using its own capital, and but little of its cash deposits; it is balancing the short or long condition

of some concerns against the long or short condition of others. The principle is that, given twenty to one hundred concerns, of varying business natures, whose totals for a year must show a margin of increase, it will be practically impossible for all to be short at the same time; just as, in production and exchange, when the manufacturer is full on stock the merchant is low on stock, and when the merchant stocks up the ware-rooms of the factory are emptied. With the shifting of the stock the bank derrick shifts the credits, throwing the strain on another post, tightening a different credit guy-line. Business to be profitable must have as many checks (face value) coming in as are sent out, and for each concern, after it has satisfied the bank with security, the bank has only to make good the temporary shortage due to stocking up and can use the surplus ensuing when sales have depleted stock and given a balance on credit.

The subject under consideration here is not banking, but the credit fund as a purchasing power, or, rather, as a fund that can buy and consume a market surplus. In considering the limit of this fund it is necessary to remind ourselves of the simple fact that checks are valuable only when drawn against acceptable deposits; and this fact brings about a close association of commercial depositors who arrange for credit instruments in making payments. Savings depositors can not be included in this association, since their funds are not subject to checking; nor is the association extended by paying outsiders with checks, as such checks will be balanced, not against checks issued by the payees, but by being cashed in. With the limit of those who may use credit instruments as purchasing power fixed, the limit of the amount so used must be fixed by the amount of business transacted by these parties. As they comprise fully ninety per cent of the business interests of the country, and as checks and drafts are mostly used in the buying and selling of raw materials, partly finished

products, and in the sale of finished products to dealers, it is fairly safe to say that ninety per cent of production and wholesale business is carried on with credit instruments. This leaves the retail trade of the country to be carried on with money. Retail credit is but deferred cash payment, as the purchasers in this case have no deposits on which to draw checks. Consuming on credit is not payment made with credit instruments.

While we are drawing a line between those who may use credit instruments in making payments and those who may not, it might be well to draw a line between the commerce of production and the commerce of selling and consuming. We frequently hear the term "ultimate consumer" and know that it applies to the individual who takes over a finished product with the intention of using it in consumption. In this we make a distinction between the consumers of raw material and the consumers of the finished product. Just as we reason to an ultimate consumer, so we should reason also to an ultimate producer; i. e., the manufacturer of ultimate products, who gathers the partly finished products of others and fashions them into their final form for ultimate consumption. Just as ultimate consumption is the end of mercantile commerce, ultimate production is the end of mechanical commerce—if such terms may be permitted.

This is really a *sub-commerce,* a dividing zone in which all raw material and partly finished products lose their identity in the ultimate product; it furnishes a dividing line at which a complete settlement is made by the capital of the ultimate producer, or manufacturer, before the ultimate product is passed on into mercantile commerce. At this line manufacturing capital delivers its load of finished products into the hands of mercantile capital, which then assumes the responsibility. All up to this line is a credit period with all products as credit assets, and with all payments subject to credit instrument settlement; and

so since it is the period of development, all materials, as assets, are growing in value and remaining within access, and are supported by responsible capital.

Thus we have a sub-commerce dealing in credit assets during a credit period, with all settlements possible to credit instruments as purchasing power. It is the commerce of production, with a complete settlement of all claims against the product by the ultimate producer.

If this is correct, the credit fund is a producing fund and not a fund that can buy and consume. It is evident that the ever-increasing value of the constituent parts of the finished product, as they pass through the many necessary sales incident to their being gathered and rounded into form and passed along toward the retailer, constitutes the most desirable funds possible. The collateral security that a bank may require, no matter what its value, is not sufficient in itself to obtain a commercial loan. It is the growing increase that secures the accommodation and it is for this that the check is received.

As no concern can long buy more than it can sell, the checks that it receives will balance the checks that it gives. This applies to a city and to a state or commercial section. The trains are loaded both ways, and if more empty cars are running one way than the other it is because the goods going that way are of more value per load than those going the other. As no man, company, city or state can buy more in value than it sells, it is evident that the goods going out pay for the goods coming in;—and, since goods balance each other, the checks and drafts must balance. How nearly this may be is shown by the testimony of a New York banker before the Committee on Banking and Currency of the fifty-third congress. He stated that his bank had done a clearing-house business amounting to $35,000,000, with a cash balance of only thirty-eight cents; that five per cent was about the usual average. This even balance of checks and drafts is evidence of how evenly

balanced the buying and selling between individuals, companies and commercial sections had been.

The development of check and draft payments, with clearing-house balances, is, in a sense, a reversion to the old system of barter exchange. In "ye olden times," a man engaging in commerce had first to gather an amount of goods and pack or ship them to some other locality, where by barter he procured that which would be accepted in exchange in his home locality, resulting in even exchange balances. Later, as commerce developed and the use of money, at a fixed ratio, became more general, the merchant made money payments for what he purchased, leaving it to the producer to seek a money market for his products; this resulted in a constant shifting of the volume of money, and the necessity for money to be coined from a substance of universally recognized value. Under the present system of checks and drafts, the goods are ordered and sent to the place where they are desired; and credit instruments, based upon local growing assets, are returned in acknowledgement of the values received. These credit instruments, representing the value of goods going and coming, are turned over to the local bank and are bartered in exchange through the clearing-house. The local bank bartering the foreign checks (foreign meaning *not local*) for the local checks brings about a balancing of trade relations without shifting the volume of money, and obviates the necessity for a material value in the money in local use. The balancing of these trade relations between commercial localities works automatically; for example, if any locality has ordered and received more goods than it has sent out on orders, the surplus of what came in must represent a deferred payment bearing interest. This interest charge, taking the form of a premium on foreign exchange, is really a depreciation in the value of local checks when sent abroad. This unbalanced relation between localities works a hardship upon local banks and on those who have abundant

credits with which to buy from abroad; for, if the condition is long-continued, money must be sent away, at local cost and loss, or interest must be paid on the reverse balance and local checks be depreciated abroad. This brings banks (in their capacity as custodians of credit funds,) to the necessity of acting as regulators of inter-local trade in order to maintain balances.

Credit funds are based upon the natural law of increase, the surety of the credit depending upon the certainty of the increase. The use of these funds as purchasing power must be limited to those arranging for their use through bank exchange. To extend credit-fund purchasing to all the people would mean that all must make bank arrangements for the care of their credit assets, and that commercial reports must needs be as voluminous as all city directories combined. But all checks are not credit instruments; local cash deposits drawn upon by check in payment for local purchases do not constitute credit, for credit is not asked for nor considered by the purchaser, the merchant, or the bank.

Credit is of the increase and not of the decrease. The increase is the object of business activity. The farmer does not plow his fields that crows may pick up worms, nor plant and cultivate that he may enjoy the beauty of green verdure. The manufacturer does not construct a plant and fill it with machinery and employ hands that he may have worries over notes in bank and slow collections. The salesman does not go out on the road just for fun nor to sell the factory. Railroads are not constructed for the sake of "two streaks of rust and a right of way" across the country, nor are the trains run for the sake of the music they make. The merchant does not rent the highest-priced building on the street because of the grandeur of its architecture; he does not advertise for the sake of notoriety, nor does he employ clerks to adorn the interior or sell the fixtures. A bank is not established

as a museum of old coin and artistically designed notes and bonds, nor does the banker make loans that he may force collection on collateral security. The factory, the store-room, the railroad and the bank do not constitute commerce. The object of their being is to promote the increase from which all funds are derived.

While searching out the origin and limit of purchasing power, we cannot well overlook the firm belief of many persons that money is the substance which enables them to buy what they may need and to pay all past dues. In political economy, money stands opposed to everything else, and no analysis that will apply to other things will apply to money. Money might be termed the X-rays of political economy, since the man who possesses it can see through a business condition which is as Stygian darkness to the man who can not secure money. The importance of possessing money has obscured the importance of that which may obtain it, as well as obscuring the economic nature of money itself. In the last analysis, money is credit—instruments of credit—representing the concretion of all other credits. Since nothing can be of importance within the relation that it bears to itself, it must be concluded that the importance of money lies in its relation to that which was expended or parted from in obtaining it. Standing as a balance in a bargain between two parties, it represents what the holder has parted from and, when the money is passed on, its relation to the former product is transferred to that which is obtained when the money is parted from. That money does not increase nor diminish in nominal value, whether in use or idle, must be accepted as proof that it cannot generate within itself a purchasing power to make payment in each new sale in which it may take part, for that would be equivalent to self-generating perpetual motion. Purchasing power, to be actual, must imply something purchasable, and as money cannot buy when there is nothing for sale, it must be evident that

purchasing power does not lie in money by virtue of its being money.

Gold, as a productive increase, generates a purchasing power equal to its recognized market or coining value; but, in this value and as a purchasing power, it will in no way differ from any other new product having a recognized market value. The genetic value of the gold is the same as that of the colt, each being pay within itself for the cost of its being. As with the colt, so with the gold; each, on reaching the limit of productive completion, reaches the limit of market value, and any further increase of value must come of its use in generating productive increase. Money can generate a purchasing power only by assisting in productive increase; and in this case, as in the case of all other increase, the increase in purchasing power can equal only the increase of the products to be purchased.

Gold as money is not used as gold, while gold to be used as gold cannot be used as money. If the value of gold money is based upon the intrinsic or utility value of the gold coined in the money, then it is a credit instrument based upon the intrinsic value of the gold. To use it for its intrinsic value will destroy it as money. If gold money is accepted at nominal value by those who have no use for gold as gold, it is with full faith and credit that others will accept it from them. Their faith in accepting that which they do not need, and cannot use, in exchange for that which has a market value, constitutes a credit independent of any intrinsic value in the substance of the money. On the other hand, if the market value of gold is in any degree enhanced by the unlimited demand for it as money, it then, as money, becomes a credit instrument to the full extent of such enhancement, if not to the extent of its nominal value. In either case, there is an element of credit in gold as money; and if gold coin is all or part credit, then all other money in use is credit to the full extent of its nominal value.

While it is idle to argue the nature of money, it is not idle to determine the nature and limit of credit. From the unsecured promissory note to basic money is a far stretch in the degrees of credit. Less than the promissory note can not be classed as an instrument of credit, while anything beyond basic money would be the realization of the object of money and the point where credit ceases. Given the two extremes, an unsecured promissory note of questionable value and basic money, the ultimate of recognized commercial value, the question is: At what point does credit become a value and at what point does it merge into value and cease to be a credit? There must be a beginning and an end.

In banking, credit begins with security and ends with cash; but banking is only a function in the intermediary process of production and exchange. In production and exchange, credit begins with the raw material and ends at payment in the final sale; but production and exchange are but functions in the ultimate realization of economic objects. In economics credit begins with inception and ends at realization of the object that induced the productive effort. Between these two points—inception and realization—there is a credit period, a part of which is centered in banking, with values represented by banking credit instruments. Since everything between these two points falls within the credit period, all substance of value and all material representatives of substance value must, necessarily, be credit assets and credit instruments based on the assets. Since the use of basic money is within this period, it must be credit in its nature even though it is the ultimate substance of banking obligations and of decress at law. What are banking obligations and decrees at law, but instruments of adjustment available during the transition period of production and final distribution?

To follow further the credit principle in money would be useless, since the object here is to cover the full scope

of credits in our search for funds that may buy and make satisfactory settlement in ultimate consumption of products. Absolute security in values would be a concretion of credits based upon the highest form of assets. Credits with such security would be a higher form of purchasing power than basic money, and would command a premium over basic money in exchange. But the most careful analysis fails to find any material increase in purchasing power independent of material increase in products. True, a material increase in money volume may dilute the relative value of money and make deferred payments more easy and possible of settlement. But the dilution of purchasing power is not an increase, since, in proportion to what one may gain by cheaper money in debt-paying, another must lose by receiving the diluted money in payments. If because of a material increase in money volume an increase in production should follow, the increase of money would indirectly result in an increase of purchasing power; but the increase of purchasing power would be through the increase of products and not through the increase of money, since the money could buy no more unless there were a greater wage and interest fund to be expended, and this would be impossible without greater production.

Search where we may, we can find no purchasing power independent of human cost in generating an increase. Capital, being concrete labor, is a human cost and can be maintained only by more human cost.

Chapter VII.

THE NATURE OF COSTS.

In our search for a market which can buy and consume our factory output we find the best market to be in those localities and among those people where the largest quantity and highest quality of goods is being produced. When we examine and inquire into the nature of commercial balances and the ways and means of making payments, we find that our customers pay for our goods with what they obtain from the selling-price of their own output. That being the limit of their purchasing power, they can buy no more; while we can buy no more of them than we receive from the selling-price of our output. It is simple, too simple to be given consideration; consequently, learned men have complicated the simplicity of exchange to conform more nearly with their habit of involved thought. Much of this complication has come about through failure to make a distinction in the nature of sales, as of raw material and of the ultimate product. That the finished product of the mine is raw material for the blast-furnace, the finished product of the furnace raw material for the foundry and rolling mill, and the finished product of the foundry and rolling mill but raw material for machine shops, is properly recognized, but the nature of sale of and payment for them as compared with that for the ultimate product has been overlooked. The finished product of one party, which is the raw material of another, has its origin and existence within the credit period of development and is consumed in transmutation rather than in concretion or evanescence. Having its existence within

the credit period which Nature has imposed upon productive force, it becomes a credit asset, the value of which constitutes its portion of the credit fund of commerce, to be balanced against other credit assets in the balancing of checks and drafts drawn against their developing value. In a sense, raw material and such finished products as enter into other construction, being natural credit assets in a natural credit period, by being balanced in the use of commercial credits, really constitute the factors of a subcommerce complete within itself. Unlike the ultimate consumer of the ultimate product, the transmuting consumer of the transmutable product (the manufacturer) provides security for all deferred payments. But what constitutes the subcommerce is that the costs of raw material are settled and balanced by the consumers of raw material before the ultimate product is placed upon the market for ultimate consumption. There is an economic line between the subcommerce of raw material, in the credit period, and the ultimate commerce of the ultimate produce. This line is the substantial capital of the manufacturers who transmute the unfinished products into the ultimate products for ultimate consumption. At this line production is mechanically completed and all costs are settled—even though it be necessary to bond the manufacturing capital to make a satisfactory settlement. All costs of material and wages are settled and compounded at this line, and all accrued costs and a margin for interest are put into the selling price. The manufacturer having assumed all costs which preceded him, has balanced the subcommerce of the credit assets and depends upon the sale of the ultimate product for his pay.

The importance of this distinction is to eliminate a multiplicity of transactions which have only a unit of result; a multiplicity of transactions which never reach the ultimate market, being assumed and settled at the economic line of ultimate manufacturing where the different ele-

ments entering into the ultimate product lose their individuality in the ultimate product.

For illustration, if your business is so perplexing that you have no time for analytic thought, take a look at your trunk while on your vacation and note its constituent parts. The brass trimmings are the most conspicuous; let the mind go out to the copper-mine and zinc-mine and follow the processes of mining and smelting, the bringing together of the two ores and the fusing and the rolling and stamping which fashioned them into clips and plates. Notice the steel bands and stays; then let the mind go over the processes of steel production from the mines of ore and coal to the finished plates at the rolling mill. The body of the trunk may next attract your attention, and out you must go to the forest where the timber is being cut for the veneer; then follow it to the mill where it is steamed and softened, to be cut into the thin flakes which are later bound together under heavy pressure with glue. Then there is the glue and the leather. Go out on the range where the cattle are grazing and follow them on their long journey to the stock-yards; follow their hides to the tannery and the refuse to the glue factory. The cloth lining is cotton or linen; and your mind must go to the cotton-fields of the south and to the flax-fields of the north, to the picking of the cotton or the harvesting of the flax, on through the processes of ginning and hackling, of spinning and weaving. Then comes the pasting; even flour paste takes the mind out to farms where the process of plowing, seeding and harvesting is producing grain which must be shipped to the mill where the flour is made. Then you notice rivets made at one factory and buckles made at another, while the lock is made at still another. Then consider the different salesmen who induced the trunk-manufacturer to buy of their special wares, together with the shipments which brought this aggregation to the trunk-factory, and the workmen who assembled the parts and turned

out the ultimate product. All that your eye may detect and your mind may cover has lost its individuality and is strapped up and locked up in the individuality of the trunk. All the various parts have been consumed in transmutation and have been settled for in the credit balances of sub-commerce. To the manufacturer it is now a matter of cost only—a cost to be covered in the selling-price. To their producers, these various parts which have been absorbed in the trunk are as nothing, since they have their pay for their material and labor costs. To the general market there goes out an ultimate product, with all costs compounded; and these costs, having been paid, are full-fledged purchasing power equal to the cost and available for ultimate consumption.

As all the water which flows out of the mouth of the Mississippi river comes from its tributaries, it would be a safe engineering proposition to say that to measure the flow passing New Orleans, with a fair allowance for evaporation and wastage, would be to determine the volume of water flowing in all of the tributaries. But no sane engineer would insist that the proper way to measure the flow of the Mississippi is to measure the flow at the mouth of every tributary of individual name, add these volumes together, and then add the result to the volume that is entering the Gulf. Yet that is how the volume of production and the volume of commerce are estimated. Every time an article of commerce goes on record it is counted in the total of products. If a census of traveling men should be taken from hotel registers, its figures would show an aggregate that would satisfy the ambitions of some growing towns for population, since some of them might be counted three hundred times a year.

In considering the costs of production the first thing to do is to eliminate the duplication of costs, since all costs are included in the cost of the ultimate product. The ultimate product at the retail price is the sum of all

costs, even though they be derived and diffused in origin and in distribution in a manner as far-flung as doctors' fees paid by the servant of a landlord who collects in rents from the chauffeur of a federal office-holder whose salary is paid from duties levied on raw material which must pass through several processes of manufacture and through several sales before reaching ultimate production and ultimate consumption, where all costs are compounded and final payment is made.

But after eliminating the duplication of costs we still find elements of cost which differ as widely in their nature as do levitation and gravitation. We find one element of cost which tends to increase the sale of goods and another element of cost which tends to depress the sale of goods. Since the selling-price of the total ultimate product is made up of different costs it must be concluded that it must be distributed pro rata in sales according to costs. In production it is *from each according to recognized cost,* and in sales distribution it must be *to each according to costs recognized.* Nor is the principle of distribution changed in any way by diffusion. For instance, a man may receive one thousand dollars as his portion of recognized cost in a certain product, whether for benefits rendered or to quiet obstruction, this being his portion as covered in the price. Now, if a highwayman shoots him down and relieves him of five hundred dollars, and a doctor saves his life and takes the other five hundred. there will be no change in the principle of distribution according to recognized costs, nor will the amount distributed be increased or diminished by the diffusion. But, as any part of the purchasing power so distributed is used in buying it becomes cancelled against the purchase, as with the value of the tables and stoves. As material and costs are being gathered by wagon, boat and rail from the scattered resources of farms and mines and forests, they can only be followed in principle and not in detail. The prin-

ciple is necessary increase and its cost, with a price to cover the cost; distribution according to recognized cost, and a purchasing power equal to the price. Cost and price being equal, they who receive according to cost can pay the price.

In the very nature of costs there can be but one division—*man cost* and *land cost*. Between capital and labor there is a differentiation of personal interests rather than a natural division, since capital is but concrete labor in which wages have been cancelled. Labor is absolutely necessary in production, and, after labor reaches the limit of its output, capital becomes absolutely necessary to a greater production; it is therefore as difficult to draw a line between them as between the liquids and solids we consume at the table. Barring superfluities, there can be no natural line or division between necessities in a common beneficial result. One might as logically draw a line between and start a quarrel over the higher wages of the superintendent and the lower wages of the workmen, since, as also in the case of capital and labor, it will be a personal matter of reducing what one party receives in order to increase the receipts of the other. But with land cost in production it is different; there is a natural division, since labor and capital can produce as well without as with royalty costs on their raw material. Labor, as human, and capital, as deteriorating substance, must have a cost and an increase for sustenance; but land, as land, needs nothing for sustenance. Land value, in royalties, franches and sites, constitutes a cost to production which must be covered in the selling-price. As a cost to production it has the honor of being first cost and must be provided for before work begins, and assumed and paid by the ultimate manufacturer in the sub-commerce of the credit period. Land cost, being the royalty cost of raw material, is unlike labor cost inasmuch as, being first cost, it must be provided for from the capital of the manu-

facturer; while wages, being of the increasing value of the developing product, can be provided for in the commercial accommodation of the credit fund. The royalty cost of raw material must lie in storage with the material; and while the raw material is a part of the manufacturer's capital, the royalty price is a cost which reduces the effectiveness of his capital, since the lower the cost of raw material the larger is the volume of output which can be swung with a given capital, and the higher the royalty on the raw material the more the capital required to swing the same volume of output. Royalties on raw material not only reduce the efficiency of capital, but, by adding to the selling-price, reduce the efficiency of wages in their ability to buy a given portion of the product. And since the demand of labor upon capital for an increase in wages is to enable labor to pay the higher prices coming of increased royalties, it should be observed that, while wages have been grudgingly advanced about twenty-five per cent, capital has cheerfully accepted an advance in these royalties varying from one hundred to one thousand per cent.

Capital and labor constitute productive force, and their very quarrels prove their family relationship. Royalty cost is of another family and a gentleman who never quarrels; he sets his price and goes away on a vacation, and when stock runs low his price is paid. And he is an accommodating fellow too. The condition which enables him to own the resources of Nature also enables him to withhold what he receives by its sale; thus supplying funds for credit consumption, the most common of which are municipal and industrial bonds; for loanable funds are necessitated by and have their origin, not in increase, but in the cost of dormant resources in Nature before labor has been applied in wresting them loose from their bed in the universe.

The holdings of natural resources at this date are so extensive and complete, and in such concentrated control, and so high in price, as to render it absolutely impossible for the owners to buy and consume all that falls to them as their share of the productive increase when measured by the cost of royalties which must be covered in the selling-price. This cost is their share of the product; that part of their share which they do not buy and consume is the measure of loanable funds and market surplus. To borrow the funds to consume the surplus is only to unload upon the future what we cannot handle today; this is evidenced by the ever increasing volume of bonded indebtedness and the necessity for "boom" conditions that encourage bond issues which will free a tied-up purchasing power to consume what ordinary conditions would leave as a surplus on the market.

First cost being the first to cash in, and then held as a loanable fund, instead of buying and consuming its cost share of the product, leaves business conditions in such shape as to render a boom necessary, while any tendency toward ordinary business conditions would be equivalent to retrogression. To check the pace for a refreshing breath means financial loss, since not to go ahead is to go backwards. The city showing less than ten per cent gain in population during the census decade is dead, while a loss in population is equivalent to burial. A fully equipped factory, employed to the limit that formerly paid good dividends, finds itself too limited in capacity and financial standing to compete longer and must enlarge, even at the expense of bond issue, or retire from the field of productive competition. The city finds that what was once its pride is now its disgrace; and before the bonds which paid for the former improvement are retired, new bonds must be issued to meet the new demands. With the city bonded to the limit of its tax levy, it must have a

boom to increase its population and wealth that more taxes may be levied, and it must then issue more bonds to provide for the needs of its larger population. We are continually trying to bridge the present by bonding the future to pay for the past.

A peculiar phase of this condition—one that should be carefully considered—is the ever-apparent need of expansion, the apparent need for greater factory facilities, for railroad extension, for building up the suburbs and inducing a larger population. While this expansion is in process we experience its benefits, but when it is an accomplished fact we suffer a depression in all lines of business. It would seem, in view of the apparent need of expansion, that with better factory equipments and with more men employed and with better shipping facilities for handling the increased output, and with better housing for the larger population, and with the greater volume of taxable values, that the boom should be just commencing instead of resolving into a depression. But the appearance and the facts do not harmonize. The facts are all on the affirmative side of that old stock question of the old-fashioned debating schools: "Resolved—That anticipation is better than reality."

But this all rests in the nature of the costs which must be covered in the selling-price and which must enter the market as purchasing power if the product is to be bought and consumed without a surplus.

A dormant resource in Nature, dormant for ages and which may be pried loose today or lie dormant for ages to come, is not a fund in political economy. Man may have legalized a title covering and defining the metes and bounds which surround and hold it, and man may have obtained this title and set his price upon it, but it does not become a fund in any economic sense until it is pried loose and started along the process of industrial development. Whatever its cost to its present owner, as

a cost, it stands neutral to present business conditions, having become adjusted to past conditions and having little or no labor cost attached to it. The financial conditions which enabled the owner to obtain title to it and to hold it in its dormant state until industrial demand gave to it a value, will also enable him to withhold all that which he may receive when it is sold to those who may need it for use. The value of the dormant resources in his holding constitutes an investment principal; if he were to use it in purchasing for consumption, he would be squandering his estate. In order that he may fully profit by his investment, the amount received in royalties or title sale must be loaned at interest or invested in productive property that he may obtain an income which can buy for his consuming needs without depleting his principal. But when the hand of labor, supported by capital, pries these dormant resources loose from their ancient resting-place, they become credit assets and the price paid, or to be paid, for the royalty right (or privilege) becomes a loanable fund representing the cost of a recognized value. Now, in the very nature of producing and selling, this first cost—this royalty cost—must be covered in the selling-price, and the higher this royalty cost is the higher must be the selling-price—unless capital and labor lose in interest and wages all that royalty costs gain in price. But while this royalty cost must be in the selling-price, only the interest on this cost, as a loanable fund, can enter the market and buy for consumption—unless, as a fund, it finds security in bonds issued for municipal improvements, factory expansion, and railroad extension, thus consuming on credit.

With a full understanding of the origin and nature of loanable funds (not commercial banking accommodations) it should be easy to understand the business necessity of "booms." With the first cost in productive increase drawn away from the support of the growing product the strain

of carrying the increase on through the credit period of floating in transition falls on manufacturing and commercial capital. These, joining their strength in commercial banking, can easily carry the growing increase on to final sales with the credit fund which is generated by the increase itself. But in the final sales the whole cost of the productive increase must enter the market in consumptive buying; thus making it necessary to mortgage and issue bonds so that part of cost which has been converted into loanable funds may be brought into the market for credit consumption. Since all new construction is generating wages and interest, the same as marketable products, it must be evident that during the boom there will be more available purchasing power to buy and pay for the marketable products than when no new construction is under way. But there must be a limit to new construction, a time when it is completed and when it must change from a product to a productive force, still paying the same volume of wages but adding largely to the volume of marketable products which these same wages are supposed to buy and consume. Since there is a legal tax limit to what municipalities may borrow and a risk limit to what productive capital may borrow, there must be a limit to the business boom. This limit is at the completion of the bulk of the projected enterprises. With this limit reached we find a speculative spirit prevailing that nothing but a double-barreled boom could satisfy, and if this should be successfully carried out nothing short of a rapid-fire magazine boom could touch the spot.

A business boom that could continue to satisfy speculative demands would, in time, have things moving as fast as Mark Twain's jack rabbit, who developed such speed that "Long after he was out of sight you could hear him whiz."

Chapter VIII.

DEDUCTIONS FROM INQUIRY.

In a neighborhood of old forest-home settlers one man brought a damage suit against another because his corn had been destroyed by the latter's hogs. It was easy to estimate the amount of corn destroyed, and there was no question concerning the ownership of the hogs; but it was difficult to determine just what proportion of the corn was destroyed by the hogs and how much by wild animals. The owner of the corn was interested in the whole amount destroyed, but the owner of the hogs was only interested in the amount his hogs had eaten. Being a just man, he was willing to pay for all that his hogs had eaten, since it had been of some benefit to him, but he insisted that his neighbor look to God for payment of the damage done by God's animals.

At first thought, corn destroyed by animals involves no economic principle other than destruction of a value; but, on second thought, it will be noticed that human agency was responsible for one set of animals and natural agency was responsible for the other. And, it will be noticed, the man had recourse, by the legalized custom of organized society, for the damage done by human agency, but none whatever for the damage done by natural agency.

To reverse this from destruction to production, we find a natural agency and a human agency in productive force. Human agency in production generates, by its costs, a purchasing power, and these costs represent the proprietary rights and interests of each contributor, and as each contributes in cost each can buy and consume in

like amount. Natural agency in production generates no purchasing power, since it has no natural costs and needs no wage fund nor interest fund.

As this is an abstract proposition that must be examined carefully from every point of view, to show the need of costs entering the market as purchasing power, let us consider an impossible condition as an illustration:

Suppose some wizard of ingenuity and science should so far solve the secrets of Nature as to evolve such automatic processes of production and delivery as would render capital and labor unnecessary, and sell all necessaries of life at prices ninety per cent less than present prices. Ninety per cent off should prove an attractive bargain, but with the cost of production eliminated—with wages and interest eliminated—what would or could generate purchasing power with which to pay the price?

Nor can we assert this to be an impossible situation unless we dispute the authenticity of the Bible. Suppose Moses had put a price on the manna which was automatically delivered at the tent doors of the Israelites during their wandering sojourn in the barren wilderness of Arabia. The gathering generated no purchasing fund, as there was no object in exchange, since the manna was common to all, and it was too perishable for shipment, even had there been a market that could be reached. As it was an automatic supply without cost, no matter what price Moses had put upon it, no matter what discounts he had given every thirty days with twenty-five per cent off at the end of each season, there still would have been no funds to pay the price. The "murmurings" of the people would have become more animated than a Wall Street panic or a kosher meat strike in Brooklyn. The conditions in Israel would have surpassed those in the East Side in New York during the tailors' strike. Men would have been tramping the desert looking for work, and all the advertising space on the tablets that Moses was

not using for bargain sales would have been filled with such "want ads" as this:

WANTED—A job. Is there on God's green earth an employer who will give an honest man a chance to work and thus keep himself and family from starving? I am that man. Address Jobless, care Moses.

This is a genuine advertisement taken from the leading paper of a live industrial city of the Middle West during the panic of 1907. The only change is in the last phrase of the address.

Business is business, whether it be selling off feed in the fall or selling the hides of starved cattle toward spring. It is business to get what one can in a legally sanctioned way. The man who has invested his capital and his time in the resources of Nature can not afford to "blow in" the value of his legalized rights buying his share of perishable goods as measured by what he has added to their cost in final sale. The man who has held a piece of land out of use for a series of years, waiting patiently for other people to raise children to give it value through their needs, can not afford to spend its price in buying the goods that they who pay his price must produce and sell over and above what they can afford to buy and consume. That would not be good business sense; he would be squandering his estate and not living within his income. But how can these royalties and land values be paid? It is self-evident that any man not at birth endowed with the price of a piece of land must produce and sell, or assist in producing and selling, and receive pay equal to what he buys and consumes and an additional amount equal to what he must pay for his land. The principle applies to all men in his class, and his class includes all not at birth endowed with the price of the land—all who must earn and pay for what they may ever own of the earth.

But, how can the royalties on raw material and land value sales be paid? The answer is as easy as planning a bridge to Mars; to pay would be like building the bridge. It simply cannot be done; there is no fund in human economy that can be used for the purpose, nor can any fund be developed by any scheme of finance—not even by authorizing those who must buy land value to issue currency equal to the price, if they who issue it must recognize its value.

"But," you will say, "land has been bought and paid for in the past and can be bought and paid for in the future."

That is true. Bank officials have used bank deposits for speculating in stock margins and won out with good profits; but does that prove that bank deposits are a fund for such use? Thousands of men have bought land and paid the price, and millions of men have bought goods on credit and never paid the price. About how nearly will one balance the other, when bankruptcies and other failures in business are included?

One fund and two payments: it is the old problem of one plug and two holes; fill one hole and the other leaks, even though it is temporarily filled with a bond or mortgage.

What is the origin of loanable funds other than land sales and royalties on crude raw material? What is a loanable fund other than purchasing power? Would the funds now available for loans on approved security, if used in buying for ultimate consumption, be sufficient to relieve the market and put a premium on productive activity? If any large portion of the volume of purchasing power be withheld from the market and held for loans instead of being used in buying for consumption, will there be any appearance of over-production? Can borrowed funds be profitably used in buying for ultimate consumption? Do manufacturers derive as much benefit

from the funds they may borrow to assist in carrying a surplus of products as from the funds they receive from the sale of products? Do manufacturers derive any benefit from an advance in the price of the raw material which they must use in producing their output? Which is the best course for the manufacturer to take when the prices of raw material and coal advance: to cut wages, raise prices, or lose his margins of profits? How much of the products from which they derive their wages does an advance in rents enable the working people to buy? What force other than a rise in land values causes an advance in rents? Why should an old house, in need of papering and well along in age-decay, rent for more than when it was new?

Questions are futile and answers are useless so long as the mind fails to differentiate between things which *are* different. We do now recognize some distinctions; but, strange as it may seem, we make the distinction in favor of the cause which makes the difference intolerable.

In our modern cities, a self-respecting woman finds it more expensive to house herself in a manner adequate to maintain her respectability than to obtain the food necessary to sustain her life. Lacking the price of room and meals, she can go for days without food and still maintain her respectability; but to sit out one night in a place made safe by the guardians of the law from the vagrants and vandals of society is to subject herself to arrest and to charges which will blight her character and shut her off from the opportunity of earning an honest living. It is not a crime chargeable against her that she be without food; but to be without a room makes her a criminal under the laws of organized society. The law of Nature establishes the reverse of this dictum; for she may sleep as soundly on the bosom of Mother Earth as a child on its downy bed and awake as much refreshed; but for going without food Nature exacts a penalty. Yet we

complain more of the high cost of food than of the higher cost of rents.

The statutory laws of nearly all our states limit the rates of interest which may be charged for the use of money, but no attention is given to the greatest of all causes underlying the obligations calling for money and interest. A man may have an accumulation of purchasing power in the form of money for which he has no present use, and if he would loan it the law steps in and limits what he may charge for its use; but if he invests it in rentable property the law will assist him in collecting any rental he may charge, regardless of the actual amount of his investment or of the condition of repairs and sanitation.

If a man is known to hoard money he is called miserly and stingy, but if he invests his money in vacant lands people feel sorry for him as being "land poor"; on the other hand,—when they and their children, by their labor and needs, will have made his lands valuable, they will look up to him as the substantial man of the community, and their homage will be proportioned to the prices for which he sells and the funds he may have to loan them—if they have the security. Pseudo-statesmen have talked themselves hoarse denouncing bankers and money-lenders as "usurious robbers" and as "blood-suckers, sucking the life-blood of commerce," but they have never referred to the speculative rise in land values which makes it necessary for all those born landless to contract payments and borrow the funds which the land value generated, if they would place themselves even with Nature and give their children a birthright. National and state legislation has been enacted to control and limit freight rates, that manufacturers may not be robbed in bringing in their raw material and in shipping out their finished product; but nothing has been done to set a limit to advancing royalties on coal and ore

and timber stumpage, which by far exceed total freight rate advances.

A lumber dealer, joining in a protest to the Inter-State Commerce Commission against an advance in freight charges of fifty cents per thousand feet on lumber, declared it was bad enough to have lumber advance five dollars per thousand at the mills without being robbed on freight rates by railroads. Congressional and legislative commissions, appointed to investigate the rising costs of living, have examined into factory conditions, have noticed an advance in wages, have condemned the extravagance of the people in buying that which their labor has produced; and they have even condemned the trusts for advancing prices; but in all their reports there is no mention of the higher land values which must have higher prices in order that dividends may be paid on the higher land capitalization. It has even been recommended that wages be limited by law in order to check rising prices, but this recommendation has not been accompanied by one to limit rents so that the wage-earner might buy more freely of the product that is generating his wages. Nor has the recommendation been made that the landlord be compelled to paper and paint before the rent is advanced.

One definition of consistency is *paste.* Possibly that is why the poet called it a jewel.

To recapitulate: The difference between modern civilization, the civilization of today, and the buried civilizations of the past can only be measured in the efficiency of applied productive force. In the science of government, in philosophy, in architecture and art, in literature and in purity of sentiment these by-gone generations were fully our equals, and the wonder of the modern scientist is how those old fellows came to know so much and why they did not put it to better use. They were the discoverers, we the inventors;

theirs was a dreamy investigation of the probable, ours an active, scientific application of the possible. And in that modern institution known as the "factory" all this difference is made manifest.

The problem of production is solved; the principle of the solution is that all forces in nature can be harnessed to do and work for man, and that development can keep pace with his growing needs.

The closing years of the nineteenth century looked back upon a period of development, and of the beginning of new projects, which gave promise of supplying the whole world with all that it might need to raise its people above the poverty of ages. The opening years of the new century gave promise of a growing purchasing power among the people which might enable them to buy and consume all that they could produce. Production, the factory system, has been equal to the promise; purchasing power, the ability to buy and consume, has failed. The problem of civilization is changed from the problem of producing to that of marketing.

The problem that looms before us today—as it appears to the masses of the people—is the problem of price. And the price must cover the cost. Therefore, the economic problem resolves itself into a question of cost, and in the last analysis it lies in the *nature* of *costs*. Of the factors in the cost of production, labor has advanced about twenty-five per cent, while crude raw material has advanced from one hundred to one thousand per cent. The price has been advanced to cover these increased costs.

Productive cost, as covered in the selling-price, is the origin and limit of purchasing power. It is with our products that we buy the money which in turn is paid out for what we consume. The recognized cost which each and every one has added to the selling-price of the product is the measure of the amount which each can buy of the product; nor can this measure be changed by the

nature of the costs, since all receive recognition in proportion to their power to enforce their demands. Therefore, the total volume of purchasing power of all the people just equals the selling-price of what they produce and sell. The more they can sell, the more they can produce; the more they can produce, the more they can sell—provided, always, that all costs which enter into the selling-price of the products also enter the market in buying for ultimate consumption. The cost makes the price and only the cost can pay the price.

On a general principle, all products are paid for on completion; they are pay within themselves for themselves, although the one who assumes ownership of any product may owe unto others the amount of their recognized cost in the product. On the broad principle of production and distribution, all products must be distributed according to recognized costs contributed by each participator, whether it be for promotion, for royalty, for capital, or for labor costs. Whatever may be the nature of the recognized costs, each participant can buy and freely own or consume just so much of the total product as will equal in price the total of his recognized costs. The distribution of costs being the distribution of purchasing power, it must logically follow that any considerable portions of the cost which may be withheld from entering the market to buy for consumption those products of which they have made up the price will constitute loanable funds, while the products they were to have bought will form a market surplus.

Loanable funds are not necessarily of money. The royalty value of raw material can more easily be adjusted in the form of a loan to the manufacturer than can the manufacturer arrange with the bank for money to pay the royalty price. Crude raw material, such as coal and ores, are latent resources in Nature and within themselves have no cost. Any price or royalty put upon them calls

for a fund to meet the price before capital and labor can be employed in developing them as a commercial product. Being first cost in production this cost holds the first lien on the finished product, and, consisting of price only, it requires no immediate payment. As a cost it is unlike capital and labor, which have a wastage which must be fed as they produce, thus giving first cost the advantage not only of having the first lien on the finished product, but of becoming a fund that bears interest throughout the entire period of production and on to final sales, and of becoming a perpetual fund when credit consumption is necessary.

Land value royalties are the investment principal and not the income of the owner. To cut timber, mine coal or ores, or pump oil is to deplete a natural supply of crude raw material, and to spend the royalty obtained therefrom for consuming expenses is to deplete the estate of the owner. The royalty cost of crude raw material is unlike the cost of manufacturing capital and of labor; the land cost being investment principal, the capital cost being interest (above repairs), and the labor cost being wages. Thus we find the estate principal of one party, the income of the second, and the wages of the third combining as costs in the selling-price of the finished product. And the price must cover the costs, and the costs must enter the market in buying for consumption if there is to be no market surplus to check further production.

Land value royalties on crude raw material, being investment principal, are transmuted into loanable funds in the first process of production and continue as interest-bearing loans, with first lien on the finished products, until final sales to ultimate consumers. As funds they become necessary to carry the royalty costs—their own costs—on through the developing process of productive increase; but as costs, covered in the selling-price, they can not enter the market in buying for consumption with-

out an economic loss to the owner. Wage-fund costs can and must buy of the product in amount equal to the wage costs covered in the price; capital can and must buy and consume in amount equal to the margin of profit in production, and in addition must assume the responsibility of maintaining wages and floating the indebtedness incurred by land value royalty costs—even to the necessity of bonding productive capital.

Capital and labor—constituting productive force—are compelled, by conditions and contracts, to produce and sell, over and above what they buy and consume, an amount equal to the royalty costs of their raw material and the price of all lands they may buy, while the price of these royalties and land sales (minus interest on the funds they generate) measures the market surplus, the consumption on credit by municipal and industrial bond issues, the bankruptcy and dead losses. But this principle does not apply to the amounts being paid in rent for the lease or use of lands and tenements, for that is income which can be expended in buying for consumption without depletion of investment principal.

Land values, whether as vacant lands or royalties on raw material, being investment principal, are transmuted on sale into loanable funds and not into available purchasing power which can be used in buying and consuming the products of capital and labor. The royalty costs of the crude raw material swell the price of the finished product on the market. The sale of vacant lands swells the volume of products put upon the market, for to produce and sell is the only way in which productive force can make payments. Any advance in the price of land must result in raising the price of the finished product by an amount equal to the advance in the royalty of the raw material, while an advance in vacant lands calls for a still larger volume of products to meet the payments. This increase in price and volume occurs with no corres-

ponding available funds to buy and consume the necessary increase. By this condition we are compelled to produce and sell more than we can buy and consume, and all foreign markets are in the same condition. It is not for lack of purchasing power, but because of an economic embezzlement for which no man or set of men is responsible. It is fundamental in our political economy. The trouble lies in the simple fact that land sales create a cost without creating an available fund to make the payment. Every mouth that comes into the world is accompanied by two hands to feed it and every product of productive force brings with it a purchasing power equal to its cost. Unobstructed, the hands can feed the mouth and the product can exchange for other products of equal value, but land value does not exchange for land values. It calls for purchasing power, but not for the products that generate it. Land value generates loanable funds by compelling an increase in production and an increasing price; and while the full volume of these funds must go into the increasing product and its price, only the interest enters the market in buying for consumption. But, happily, we have so far fairly maintained a balance of production and exchange by the ever-increasing and never payable issues of municipal and industrial bonds—thus consuming on credit and unloading upon the future a condition which we are unable to manage and make balance.

This is the condition, and the evidence that there is no shortage in purchasing power is the simple fact that there is always a volume of loanable funds sufficient to buy and consume all the desirable products of the world. These funds are purchasing power which has been "sidetracked" by *economic embezzlement.*

BOOK II.

COST EFFECTS OF LAND VALUES.

CHAPTER I.

COSTS AND PROFITS.

Land cost is far-reaching. It includes the royalties on mines and timber stumpage, as known in commerce; the selling-price and leasing-price, as known in real-estate transactions; the difference between the price of improved property and the land holding the improvements; and franchises granted by legislative bodies. In political economy, land costs are termed "ground rent," in distinction between what is paid on the capital value of the improvements and that for the use of the site as land. Henry George extends the term "ground rent" to include the selling-price of land, as operating merely to discount all future rents. Since "ground rents" include so many phases, and since there is no object in dissection, it will be as well in this work to cover all the ramifications of the idea under the term "land value."

Land value, as a cost, so thoroughly permeates all commodity prices as to render it impossible to determine its proportional quantity in any given price. A general rise in city real estate prices is a general rise in land values. The increase in rental of the retail store must be added to the merchant's selling-price, as the higher royalties must be added to the manufacturer's price. The increased royalty and rental added to the selling price of the goods together with the increase in house rents make a rise in wages a necessity, and the advance in wages

must in turn be added upon the selling-price of the goods. Every bulge calls for a corresponding bulge. Rising land value is to prices what yeast is to the size of a loaf of bread. It adds to size without adding to quantity. It might be stated thus: An increase in population and production results in higher rentals and in higher costs in production; an increase in rentals and in production costs necessitates larger margins and higher wages in any given quantity of product; these all, being costs, must be covered in the selling-price.

The present commercial condition is different from any which the world has confronted since the beginning of modern civilization. There have been war-time depressions; commerce has lagged for lack of stability in governments; prices have been inflated by a relative inflation or dilution of money; lack of sufficient transportation has caused unbalanced local conditions; an unusual rush of population toward free lands has resulted in rising prices coming of lessened production; but we now have for the first time a condition whereby prices are perched on land value stilts. The very abundance of production, which formerly tended toward lowering prices, now results in a continued increase in land value with increasing costs which must be added to all prices. Prices are much like a cat climbing a tree; they are afraid to go higher, they can't stay where they are, and to fall means a panic.

While capital and land value are heterogeneous and as dissimilar as levitation and gravitation, they are so intermingled by the capitalization of land value as to leave no line of demarcation. Capital improvement reduces costs, land value improvement increases costs. And the price covers the costs, whether they be capital costs, labor costs, tariff costs, or land value costs.

As a cost entering into the price of manufactured products in this country, land value made its appearance in the census of 1870 at 6 per cent and shows a gradual in-

crease in each census until it stands at about 66 per cent of total costs in 1905. Capital costs in the manufactured product of 1870 stand at 42 per cent of total costs and in 1905 they were but 8 per cent of total costs. In 1870 wages cost was 52 per cent of total costs, while in 1905 the wage fund was but 26 per cent of total costs. Between 1870 and 1905 the gravitation of capital cost was from 42 per cent to 8 per cent and that of wages cost from 52 to 26, while the levitation of land value was from 6 per cent to 66 per cent of total costs.

While a census report would hardly be a safe balance sheet from which to declare dividends, the deviations from exactness are fairly proportional in each census year. That the census is grossly inaccurate is admitted and explained by the census bureau itself; but, it is claimed that the accuracy of these inaccuracies preserves the value of proportional estimates. Therefore, while the foregoing percentages are not supposed to be nearly exact, they must still, as the proportional variations in the rise of land value costs and in the decline of capital and labor costs as given in each census are gradual and correspond, be given credit. The continual conflict between capital and labor, as each felt and realized the slipping from them of the proportional share of what they had jointly produced, has so held and riveted their attention upon each other as to blind them to the insidious force that was taking the meat while they were fighting over the bone. While the inaccuracies of each census have been proportional, and while the value of the census for the purpose of estimating increase and decrease is not impaired, these inaccuracies have still had much to do with the trouble between capitalists and laborers.

In the preceding book mention is made of a "sub-commerce"—a commerce in the evolutionary credit period of production which ends with assumption of cost and payment for materials by the ultimate manufacturer. It will

be observed that all raw material and partly finished products which are necessary to the ultimate product must be included in the price of the ultimate product, but in the census they are enumerated as separate and independent values and are added to the value of the ultimate product in the totals. This duplication of values included in census reports has been noticed by some students of economics, but not until the census of 1905 was any mention made of them. In the report of 1905 the following illustration is used to show these duplications:

Value of yarn at yarn mill	$10,000
(same yarn in cloth)	
Value of cloth at cloth mill	15,000
(same cloth in clothing)	
Value of clothing at factory	20,000
Total value in census report	$45,000

It must be evident that the evolution from yarn to clothing is all complete within the clothing and all costs and profits included within the $20,000 value of the clothing; while the census total could easily have been enlarged by including the cost of the wool or cotton which the yarn mill put into the yarn. This duplication of values in the aggregate report of manufactured products may be beneficial to those who enjoy the exaltation of exaggeration; but to the wage-earner the percentage of wages to the exaggerated product was a disheartening exhibit. Overlooking this duplication of values in tabulating aggregates has caused much hard feeling among wage-earners and has led many into the error of using the discrepancy as an argument to prove that much higher wages could be paid from the value of the product.

The census of 1870, as tabulated, gives 22 per cent as the proportion of wages to product value, while the census of 1905 tabulates wages as 18 per cent of product value. The real discrepancy in the relation of wages to product, in this duplication of values, lies in the fact that while

wages are a part of the duplication they are tabulated only once as wages and in each additional duplication as product value. For illustration, the wages paid for labor in the yarn mill are tabulated as wages and are added to the value of the yarn and tabulated as product value. As a portion of the yarn cost to the cloth mill they are tabulated again in the value of the cloth and are sent on to the clothing factory. In the value of the clothing, being costs which must be covered in the price, they are tabulated in the value of the clothing. So far, all is proper; but when in the census report on factory products the $10,000 value of yarn and the $15,000 value of cloth is added to the $20,000 value of clothing, the wage cost in the yarn, it will be observed, will have been counted as product value three times in the census total of $45,000, while it is counted but once as wages. Thus wages, as wages, are not duplicated in the census tabulation; but as cost swelling the product value they are duplicated in the duplication of product tabulation. As wages were 18 per cent of the total value of the product, as tabulated in 1905, we find that 18 per cent of the combined product value of the yarn mill, the cloth mill, and the clothing factory—tabulated at $45,000—would show a wage fund of $8,100, or wages equaling 40 per cent of the $20,000 value of clothing.

Adam Smith reasoned that a portion of the product was the wage fund, but he did not reason out what portion. Nor is it reasoned here that 40 per cent is a fair portion, nor that 40 per cent is paid out in wages. The yarn and clothing illustration is used here because it is used in the census report, and not because it is considered a fair estimate of duplications in tabulating values. Just what percentage of duplication there may be in the totals tabulated no one can tell. That it reaches 50 per cent appears to be imposisble; that it exceeds 25 per cent is very probable, while 33⅓ per cent looks very reasonable—al-

though, it will be observed, the illustration from the census shows a duplication exceeding 100 per cent. Therefore, wages, being tabulated without duplication, are a larger percentage of the actual total, while the apparent margin to capital must be relatively smaller, so we will therefore first consider the relative changes in wage and interest margins as shown in the several census tabulations. But, as the census of 1910 is tabulated so as to eliminate in a measure the defects of duplication, it is uncertain in comparison with other reports where the margin of difference is no more than one or two points. While the census of 1910 is taken and tabulated in a more comprehensive manner than any previous census, it would require more time and study to compare it in principle with each census back to 1870 than is necessary for the illustration to be used; it therefore is omitted.

The following table shows the value of total manufactured products, the cost of production, including wages and salaries, the apparent net profits, and the percentage of apparent net profits as compared with value of the product. The apparent profits are obtained by subtracting the costs of production from the total value of the product. The object of this table is to show the decline in the margin of profits.

Table I. (From census of the United States.)

Year	Value of Products	Cost of Production	Apparent Net Profit	Per cent of Profits
(a) 1870	3,385,860,354	1,990,741,794	1,395,118,560	62
1880	5,369,579,191	3,396,823,549	1,972,955,642	50
1890	9,224,541,094	7,966,837,495	1,257,703,599	24
1900	13,004,400,143	11,099,214,539	1,985,185,604	14
1905	16,866,706,985	14,781,133,343	2,085,571,642	12

(a) Reduced to gold values.

(Note—The dates are of census reports; compilation covers preceding year.)

The stock law of political economy governing wages and interest, as propounded by Ricardo and indorsed by Mill and others, (wages rising as interest falls and falling as it rises) makes wages and interest antagonistic, and one might believe that the nominal rise in wages has tended to reduce interest on productive capital. The following table will show:

Table II. (From census of the United States.)

Year	Value of Products	(a) Total Wages	Per cent ratio of Wages to Products
(b) 1870	3,385,860,354	775,584,343	22
1880	5,369,579,191	947,953,795	18
1890	9,224,541,091	1,891,228,321	21
1900	13,004,400,143	2,322,333,877	18
1905	16,863,706,985	3,016,711,706	18

(a) Does not include salaries.
(b) Reduced to gold values.

With 1870 as the basis of time and with the total manufactured product as a basis of value we find that in 1905 wages have declined 18 per cent in relation to the product, while profits have declined 80 per cent. While the change in the percentage of wages is slight as compared with that of profits, it is positive, while the decline in profits is positively surprising. Were it not so much so, it might be questioned, but the uniformity of the decline shows some underlying principle. However, it must be observed, that this decline in profits is the percentage margin on the product value and not a percentage margin on the productive capital.

As it is here asserted that this change and decline in wages and profit margins is directly chargeable to the rise of land value costs in production, and that the higher the land value cost in the material the more capital will be required to swing a given value of products, the follow-

ing table may prove interesting. This table will show how capital in relation to products must necessarily increase in order to carry in stock the raw material rendered higher in price by the higher land value costs.

Table III. (From the census of the United States.)

Year	Manufacturing Capital	Value of Products	Per cent ratio of Capital to Products
(a) 1870	1,694,567,015	3,385,860,354	50
1880	2,790,272,606	5,369,579,191	52
1890	5,166,579,203	9,224,541,094	56
1900	9,817,434,799	13,004,400,143	75
1905	13,872,035,337	16,866,706,985	82

(a) Reduced to gold values.

The boast of our factory system has been "improved machinery that lowers the cost of production." Yet in 1905 it required 60 per cent more capital to produce a unit of product value than in 1870. That is, it required 82 units of capital in 1905 to produce the same number of product units of value as 50 units of capital produced in 1870. While we may well question the accuracy of census reports, we can not well question their proportional accuracy or proportional variations. Were the change of but a few points it might be charged to the census, but a uniform and graduated change of 60 per cent can be charged only to an underlying principle.

So far we have been looking at wages and profits as margins and not as costs covered in the selling-price. The selling-price being all cost to the purchaser, we must consider everything covered in that price as costs to be divided and distributed according to costs recognized. This should give us the percentage of each element of cost which is covered in the selling-price. The following table gives the percentage of wages to the cost of production as tabulated in the census reports. This cost includes

materials, supplies, and salaries, but not capital wastage; that is in the margins. This is to show wages as a cost in production and not as a percentage of the selling-price of the product after capital margins have been added, as is usually done.

Table IV. (From census of the United States.)

Year	(a) Cost of Production	(b) Total Wages	Per cent ratio of Wages to Cost
(c) 1870	1,990,741,794	775,584,343	39
1880	3,396,823,549	947,953,795	28
1890	7,966,837,495	1,891,228,321	24
1900	11,099,214,539	2,322,333,877	21
1905	14,781,133,343	3,016,711,706	20

(a) Includes salaries.
(b) Does not include salaries.
(c) Reduced to gold values.

In comparing Tables III and IV it will be observed that in 1870, 50 units of capital were adequate to a volume of products of which 39 per cent was wages cost, and that in 1905, 85 units of capital were required to a volume of products of which 20 per cent was wages cost. In short, 50 units of capital were adequate to 39 units of wages in 1870, and it required 82 units of capital to handle 20 units of wages in 1905;—a decline in wage cost of practically 50 per cent and an increase of capital exceeding 60 per cent. Since one is *plus* and the other *minus*, the real difference is 110 per cent. The cause is the increasing land value cost in raw materials.

By comparing Tables II and IV, a marked difference will be observed between the percentages of wage cost in the factory price for the years 1870 and 1905. This difference is accounted for in the margins of apparent profits as shown in Table I. Therefore, the real labor cost of production in 1870 was 39 per cent instead of 22 per cent, and in 1905 labor cost was 20 per cent instead of 18 per

cent of product cost at factory. This shows a decline in labor cost of practically 50 per cent instead of 18 per cent as usually estimated in census reports in the factory selling-price.

So far, in determining percentages we have taken the reports of the census literally, without attempting to harmonize duplications as recognized by the commissioner of the census and as mentioned in the beginning of this chapter. As will be observed in the illustration of the evolution of yarn into clothing, these duplications are the result of adding the cost of raw material and partially finished products to the price of the ultimate product. Wages, as wages, it will be observed, are tabulated only once, while the price of the product in which they are a cost may be tabulated two or more times. As these duplications in the cost of production occur with no corresponding duplicate in tabulation of wage cost, it must be evident that wages are a much larger cost than has formerly been deduced from census reports. Thus, if these duplications equal 33⅓ per cent, the aggregate of production must be estimated at one-third less than tabulated; and as wages are not duplicated they must be a much larger proportion of production cost. To reduce the aggregate tabulation of the product by one-third is equivalent to adding one-third to wages as a cost in production; therefore, to equalize duplications, we must add one-third to the percentage of wages cost as given in Table IV. Thus wages cost in production in 1870 will stand at 52 per cent, and in 1905 at a fraction over 26 per cent.

A labor cost of 52 per cent in 1870 and of 26 per cent in 1905 may seem a far-fetched deduction from census reports which have formerly been construed to show a labor cost of 22 per cent and 18 per cent respectively. But the government census figures are given as proof, and the reason for the change in the estimates

is approved by the census report of 1905. But this is an estimate on the labor cost of production, and not a percentage of the price for which the manufacturer sells. The difference between what the product costs the manufacturer and the price for which he sells is the margin of his capital deterioration, the interest on his capital, and his profits—if the margin is wide enough.

This margin, as shown in the census reports, was 62 per cent in 1870 and 12 per cent in 1905. But if duplications have swelled the totals of product value, as given in census reports, then these same duplications have swelled the apparent margins of profits to manufacturers. The number of factories and their capital, with the number of workmen and their wages, are the only things reported without duplication in the factory tabulations; it is therefore necessary to make estimates; and as 33⅓ per cent is our estimate on duplications, it is but reasonable to apply the same ratio to the apparent margin of manufacturers' profits. If the actual volume of the product is less, on account of duplication of values, the actual margin of profits must be less, since it is estimated from the exaggerated table of values. The volume of wages is known; then, if the volume of the product cost is less, wages are a larger per cent of the reduced product cost; on the other hand, if the volume of the product cost is less, with wages a larger percentage of the cost, then the margin of apparent profits must be proportionally less. By adding one-third to wages cost and reducing the apparent margin of profits by one-third, we have a fair estimate of their percentage in the manufacturers' selling price. Now, since capital and labor are both elements of cost in the selling-price, the percentages of the two added will give the percentage and labor costs, as compared with the percentage of land value cost in production.

Reference to Table I shows the apparent margins of profits to be 62 per cent for 1870 and 12 per cent for 1905.

This, reduced one-third, will stand at 42 per cent and 8 per cent respectively. Added to the percentage of labor costs the result is shown in the following table:

Table V.

Year	Per cent of Wages Cost	Per cent of Capital Cost	Per cent of Cap. and Wages Cost	Per cent Land value Cost	Wages, Cap. and Land value
1870	52	42	94	6	100
1880	37	34	71	29	100
1890	32	16	48	52	100
1900	28	10	38	62	100
1905	26	8	34	66	100

The writer neither asserts nor supposes that the foregoing tables are correct estimates, but has every reason to believe that the proportional estimates are approximately correct. The cost of materials (minus labor cost) is classed as all land value cost, with the full realization that much labor cost was expended in the raw materials that was not so tabulated in the census reports. But, to offset this untabulated labor cost in raw materials, we must take into consideration the amount of land value cost which is classed as capital and the higher rentals which compelled higher wages. When we take into consideration that fully one-third of factory capitalization is but land-value-padded stocks, and that wages have been advanced fully one-fourth on account of rising land value costs in rentals, it will be found necessary to carry from the columns of wages and capital cost to that of land value an amount fully if not more than equal to what should be deducted from land value costs on account of untabulated labor cost in raw materials.

A little unprejudiced study will soon train the mind to discriminate between these different elements of cost all along the line of production. Once perceived, they can never again be overlooked, any more than quality and porportions in other things will be overloked by the trained eye.

The reader may note a discrepancy in the percentage of wages in the foregoing table; the wage percentage is computed as a per cent of production cost, while capital margins and land value costs are computed as a percentage of the factory selling-price; that is, production cost with profit margin added. This is intentional, since wages are the one known portion; and as it is not good policy to weaken an argument by making it too strong, the maximum percentage is computed, thus favoring the land value cost estimate. But, no matter how these figures may be arranged, the result varies only a few points. Taking the census figures literally, with the 12 per cent margin to capital and the 18 per cent of wages in 1905, the added result is 30 per cent for combined capital and labor costs, leaving 70 per cent instead of 65 per cent as land value costs. An old saying might apply here: "If you would find a thing, look for it where it was lost."

But capital and capitalized land value are so closely associated that many capitalists (manufacturers and merchants) are gaining as much from the rise in land as they are losing by the decline in margins on their capital. In many instances capital is only incidental to land value development; but this is in cases where the production of the raw material and the partially finished products wherein land value makes the greater portion of the cost of the materials for which the ultimate manufacturer must pay. The higher the royalty the higher the cost; the higher the cost the higher the price; the higher the price the lower the percentage of wage cost and capital margins, with an increase of loanable funds and a greater need for municipal and industrial bond issues for consuming on credit.

The simultaneous and continuous decline of capital and labor margins (interest and wages) in production completely refutes the theory of the natural antagonism of capital and labor, or of interest and wages. They rise and fall together.

CHAPTER II.

RISE IN LAND VALUES.

In one respect this country has witnessed a greater change in three generations than the older countries witnessed in three times three centuries. During three generations a world of natural resources has changed from public ownership to concentrated corporate private ownership. Where once the labor of our sires was employed in developing capital, capital is now employed in developing land value. Where once the natural resource was only incidental to capital development, the employment of capital is now incidental to land value development. Land value is now demanding higher dividends than the combined earnings of capital and labor.

To illustrate, a man from Pennsylvania appeared before the Ways and Means Committee of Congress, while they were framing the Payne-Aldrich tariff bill, and requested that higher duties be levied on iron ore and pig iron. The reason which he gave for asking higher duties was that his company owned two thousand acres of low-grade iron ore. He was unusually honest in his request, stating plainly that they had owned the land for fifty years and felt that it was about time that they realized something on the "unearned increment," and were ready to employ capital in developing it. He did not put in the usual plea that he was employing labor and desired to pay big wages; all he asked was more "unearned increment." In this his honesty is commendable, and his name might be published as an example to those who never seek an advantage for themselves in higher tariffs, their only object being the advantage to labor in higher wages.

But this work is not a discussion of the right or wrong of protective tariffs; and to show that present prices are not the result of the Payne-Aldrich tariff we will make some quotations from the "hearings" before the Ways and Means Committee while the bill was under discussion. The following is clipped from the brief submitted to the committee by President Edgar S. Cook, of the Warwick Iron and Steel Co., Pottstown, Pa. This clipping is abbreviated so as to bear on the advance in price—and the nature of the advance—rather than a tariff argument.

"POTTSTOWN, PA., DECEMBER 30, 1908.

Committee on Ways and Means,
Washington, D. C.

Gentlemen: The Warwick furnaces are typical merchant blast-furnaces.

They are not connected with any steel works, nor with any works wherein pig iron is fabricated into finished forms.

All the iron made is sold at competitive prices.

The great difference in cost between 1898 and 1908 can readily be seen as follows:

Year	Ore cost per ton of iron	Fuel cost per ton of iron
1898....................	$4.54	$3.02
1908....................	8.11	4.00

The actual cost of conversion for 1908, as compared with 1898—that is, labor, salaries, fixed expenses, etc., with two furnaces in operation—is as low as in 1898, notwithstanding that the wages paid labor are considerably higher than during 1898. The increased wages paid employees have been neutralized by the benefits derived by expenditures on capital account.

While cost of fuel for 1908 per ton of iron shows $4 as compared with $3.02 for 1898, the consumption of fuel per ton for 1908 was fully 300 pounds less per ton of iron than for 1898.

Attention is called to these items in order to show the practical value of expenditures on capital account, to improve the efficiency of the furnaces, and to lower the cost of conversion, thus helping to pay the higher wages."

In the fuel cost, it will be observed, the better capital expenditure made a saving of 300 pounds of coal per ton of iron, and yet the reduced quantity of coal cost 98 cents more in each ton of iron. In a table marked "Exhibit A," Mr. Cook states that in 1899 they sold their product f. o. b. Pottstown for $13.36 per ton at a profit of $2.35 per ton; in 1903 they sold it for $17.60 per ton at a profit of $0.27—and this after making improvements; in 1907 they sold for $20.18 at a profit of $1.39. A lower margin of profits at $20.18 per ton than at $13.36 per ton, and this with improved capital and no higher wage cost. Their selling price in 1898 was $9.79, less than half that of 1907.

Mr. E. C. Felton, Haverford, Pa., president of the Pennsylvania Steel Company, in his testimony before the same committee, corroborates Mr. Cook's brief. The following is a verbatim clipping from Mr. Felton's testimony. (Mr. Cockran, Mr. Gaines, and Mr. Dalzell of the committee.)

> *Mr. Cockran.* The increasing cost is largely due to the increase in the cost of the raw material, is is not?
>
> *Mr. Felton.* Raw materials, freight and labor. If you will let me state it, I will tell you just what those costs are.
>
> *Mr. Cockran.* Certainly.
>
> *Mr. Felton.* Iron ores which in 1898 cost us $2.25 a ton at lower lake ports—
>
> *Mr. Cockran.* $2.25?
>
> *Mr. Felton.* Yes; (continuing) in 1907 cost us $4.75.
>
> *Mr. Gaines.* In 1898 it was what?
>
> *Mr. Felton.* In 1898 they cost us from $2.15 to $2.25 per ton at lower lake ports. In 1907 they cost us $4.75 for those same ores. The unit price, which, after all, is the thing which determines the cost of ore going into a ton of the pig iron, cost us in 1898 $5.75—that is, the amount of iron ore necessary to make a ton of pig iron cost $5.75, and in 1907 it cost us $11.25.

> *Mr. Dalzell.* What was that last statement?
> *Mr. Felton.* The iron ore which was necessary to make a ton of pig iron—not the price per ton of the iron ore, but the iron ore necessary to produce a ton of pig iron—cost us at our Maryland works in 1898 $5.75 a ton. In 1907 the same ore cost us $11.25 a ton.

Among others testifying along this line, Mr. Charles M. Schwab, formerly president of the United States Steel Corporation, now president of The South Bethlehem Steel Co., called attention in explaining the rise in steel prices, to the fact that coal lands (coking coal) in the Connellsville region had advanced from $600 to $3,000 per acre, and that the Carnegie company acquired their ore lands at ten cents per ton. A clipping from Mr. Schwab's testimony may be interesting. (Mr. Crumpacker and Mr. Randell of committee.)

> *Mr. Crumpacker.* The Mesabi deposits are owned almost entirely now by the large manufacturers?
> *Mr. Schwab.* They are.
> *Mr. Crumpacker.* The small, independent manufacturer has to buy his pig iron or his ore from competitors?
> *Mr. Schwab.* That is true.
> *Mr. Crumpacker.* The Mesabi deposits are the chief source of iron ore for the northern producers?
> *Mr. Schwab.* Not Mesabi alone, but the Northwest.
> *Mr. Randell.* There was a charge, you say, of royalty, of about $1 a ton?
> *Mr. Schwab.* Yes.
> *Mr. Randell.* Twelve years ago the ordinary price of royalties for iron ore was about 25 cents a ton, was it not?
> *Mr. Schwab.* I have leased it as low as 10 cents a ton.
> *Mr. Randell.* The iron mines are scattered in various parts of the country, are they not?
> *Mr. Schwab.* Most of them are in the Northwest, in the lake district.

Mr. Randell. And twelve years ago they were owned by a great many people?

Mr. Schwab. Yes.

Mr. Randell. Since then they have been bought up and are now owned by a few corporations?

Mr. Schwab. Quite true.

A little girl, in telling a friend where she had been during vacation, said after naming a number of places: "That's only where we went before we went."

And the rise in prices prior to 1908, as noted above, is only the rise before the rise began. But this rise of 1,000 per cent in the royalty value of iron ore cannot be charged against the Payne-Aldrich tariff, nor did the reduction of the iron schedule in the Wilson bill—and adopted in the Dingley bill—in any way prevent the rise.

Land value has always been an element of cost in production, by reason of the cost of factory sites and the ground rent of warehouses. But the year 1870 really marks the beginning of royalty costs in raw material. Prior to this date, while the natural resources more favored by location were in private ownership and covered by good stiff prices, the manufacturer who used the raw material could still go farther back and at a greater labor cost procure all he needed. While this did not reduce the cost of production nor lower the price, the labor cost was still a greater percentage of total cost, and the need for capital permitted a greater margin of profits to capital, thus allowing wages to buy a greater portion of the product and allowing capital to carry a larger portion to improvements, without issuing bonds to cover the cost.

About 1870 there began an economic contest between capitalized inventive genius and capitalized land speculation, one straining to devise better methods and improved machinery to reduce the cost of production, and the other to devise ways and means for increasing the cost of raw material and add to the cost of production. For twenty years inventive genius led the race, and selling-prices grad-

ually declined as capital and labor doubled their output without added human costs. But capitalized land value was running a good second, and where in 1870 the percentage of production cost stood *labor* .52, *capital* .42 and *land value* .6, in 1880 it stood *labor* .37, *capital* .34, and *land value* .29—a net gain to land value of 23 points, although inventive genius had broken all records in reducing capital and labor costs in production. It was during this decade that war was declared between capital and labor. The net gain of 23 points to land value did not come out of nothing; and as capital and labor felt a slipping of their respective portions, they tried to recoup their losses, not by fighting land value, but by taking it out of each other's hides. But inventive genius was not to be easily beaten. The contest went on for another ten years, at the end of which the ratio of cost percentage in 1890 stood *labor* .32, *capital* .16, and *land value* .52. Another score of 23 points for land value.

In 1890 the "dead line" in prices was reached. Land value, representing one-half of the cost of the product, could control one-half of the product, or one-half of the purchasing power generated by the product. Inventive genius had lost the race so far as being able to reduce prices still further was concerned. Labor, representing only one-third of the cost of the product, could buy only one-third of what it had produced. Capital, representing only one-sixth of the cost of the product, could control only one-sixth of the product, but was compelled to assume the responsibility for all surplus not sold and consumed. As capital and labor, being but one-half the cost of production, were limited in buying of the product to the one-half which represented their share as measured by cost, it naturally followed that the other one-half must be bought and consumed by the owners of land values, or a surplus of products and loanable funds would result. It was during this period that "over-production" first made itself

manifest in a world-wide commerce; and for the first time in history a falling market saw an abundance of loanable funds without any inflation of credit money, even in the face of a diminishing volume of basic money. The paradoxical condition of an actual shortage in the volume of money and an over-abundance of loanable funds was manifest in every part of commerce. It was only a question of "security." While a manufacturer could not obtain a commercial accommodation at "call loan" rates to make up his pay-roll, the government's call for a "gold" loan was subscribed ten times over. Nor was this condition the result of a 'money agitation"; it preceded and caused the agitation. It was the development of a series of years; the money agitation followed the development, and became more acute as the condition became more oppressive.

There is never an agitation without an irritation; never an effect without a cause—even though those who profit by the cause can see and feel no reason for irritation or agitation. To those who profit by such a cause a resulting agitation becomes an irritation; they mistake effect for cause, and blame the agitators for the cause of their unrest.

Timber was a much larger factor formerly in manufacturing and building than now. The lower costs on timber used in various forms of manufacturing and construction caused timber to advance in stumpage price before ore and coal royalties really felt the advance. While ore and coal royalties really began their advance in 1898, and were heavily capitalized in 1899, timber stumpage began to advance in 1870.

It was in 1868 that the writer first saw the process of lumbering pine forests. A fine body of timber was being logged off near his home; the logging contractor received $4 per thousand feet for cutting, skidding, hauling and putting it afloat in the water. The logs were worth $6

per thousand feet in the water, that being the amount paid by mill-owners for logs of equal quality. This price covered $2 land value cost and $4 of capital and labor cost—mostly labor. The land value cost was exceptionally high for that time, as the timber stood on fairly level and dry ground, with an outside haul of less than two miles. Timber farther from water would have been lower in land value cost and higher in capital and labor cost. In 1882, after land value had scored its first 23 points, another body of pine timber, relatively the same in quality and convenience, was logged by contract. In the meantime there had been some improvements in logging and some reduction in wages, and $2 per thousand feet was all that was paid in the contract for relatively the same work. The owners of the timber had just paid $12 per thousand feet stumpage; this, with the logging price, made $14 as compared with $6 fourteen years before. This change in relative costs shows an advance of 600 per cent in land value cost and a decline of 50 per cent in the capital and labor cost of logging, while it required more than double the volume of capital to handle the same volume of lumber as in 1868. To the owner of the timber, who had acquired title from the government on Mexican war land warrants, at a cost of 40 cents an acre, the selling-price of $12 per thousand feet evolved into a loanable fund, as the same condition of his finances which enabled him to hold the land out of use also enabled him to hold the obtained price out of use. In simple fact, a part of the purchase price was a $10,000 mortgage on a 600-acre farm owned by the purchasing mill-owners, who must have the timber to continue the operation of their mill.

It will be noted here that the active factors (the mill owners as capital and their workmen as labor) in the production of this lumber could not purchase one-half the value of their output with their profits and their wages. Their cost proportion was less than half of what they put

upon the market, while the other portion of cost could not enter the market in buying for consumption without squandering estate principal.

Not only did the selling-price of this pine timber evolve into loanable funds, but the land owner then sold the stump lands to actual settlers on contract, thus increasing his loanable funds. And what was more, he loaned a part of what he received from the timber sale to these same settlers to assist them in building their homes, thus exalting himself to the post of a depressing Providence passing out to a poverty-stricken people the blessings to come from the resources of Nature. The writer as a civil engineer ran the lines and staked out the lands for these settlers. The same quality of pine timber, in any fair location in Michigan or Wisconsin, would now be worth fully $30 per thousand feet stumpage.

To illustrate the principle that is being traced: A capitalist (mill owner) purchases from a landlord a tract of pine timber for, say, $1,000,000 stumpage cost. This $1,000,000 cost represents Nature, for it contains no human costs. It is the investment principal of the landowner, and to use any part of it for consumptive buying would mean depletion of principal. While he can use only the commercial interest on the $1,000,000 in buying for his needs, it is still imperative, as the purchasing capitalist must stand the interest, that the full $1,000,000 and interest be covered in the selling-price of the lumber cut from this timber. The object of the capitalist is the profit coming from cutting timber and selling lumber, and handling this body of stumpage requires his having a capital—or paying for a credit capital—one million dollars greater than if the timber were as free to him as to the earlier lumbermen, or to the man from whom he buys. Since all costs covered in the selling-price must also, if we would have balanced markets, enter the market in buying the product, it is evident that this land value

timber deal will generate a $1,000,000 loanable fund and $1,000,000 of over-production—if not consumed on credit. It forces a debtor condition with no compensatory alleviation other than the loan.

Prior to 1870, a railroad had been constructed through a section of country where, for a short distance, there was a fine lot of hemlock timber from which the road derived its supply of cross-ties. The road paid 20 cents per tie for what it required, delivered at convenient points along its right-of-way.

Most of the people in that section had settled on the land with farming intentions, and the sale of a few ties was quite a help, as the timber was considered only an incumbrance to crop-growing. A railroad tie was a matter of 20 cents of wages for man and team; and as some men had no tie timber of their own, timber was given away on land about to be cleared, because it was easier to have someone cut and haul it off than for the owner to cut and burn it. As in all new sections of the country, land speculators had bought—or the state had given them—a large portion of the land which they were holding while the settlers made it valuable by building highways and school-houses. These speculators would not give away any timber to help those who were building values for their benefit, but would sell stumpage at 2 or 3 cents per tie. At first, no timber was considered worth while unless standing on dry ground and very near the railroad; but as the nearest timber was cut away, and, as more people needed work they would go farther back and pay higher prices for the stumpage.

The first settlers were either "homesteaders" or had obtained their lands at the government price of $1.25 per acre and were practically free from debt, since that which is free generates no debts; and they were proportionally independent. But those settling later either paid all their money for the land at the speculators' price or were in

debt for it. This created a demand for the opportunity to earn money, and gave an added price to the tie timber, as it furnished winter work. The greater the demand for opportunity to earn money by making ties, the higher went the stumpage price, until what was formerly considered an incumbrance to the land was now giving the land an added value by its quantity of stumpage. Where formerly timber was given away within two miles of the railroad, it was now being sold at from 5 to 7 cents per tie at distances of five and six miles—the railroad still paying the same price. Just as the labor in a tie increased by the distance from point of delivery, the wages in the tie decreased by the rise of land value in the tie. The last of the timber in that section to be cut away was valued at 14 cents stumpage and—the railroad raising its price to 21 cents—wages received on each tie were 7 cents, including team work—a decline from 20 to 7 cents.

This is describing an actual condition in which the writer, as owner of part of the land, was a participant. And it might be well to state that wages, measured *per diem*, for making and hauling the ties, did not materially decline. This was owing to the fact that as the margin of wages in the tie declined the more skilled axmen developed additional skill and the ordinary workers abandoned what would not pay ordinary wages. Axmanship became a profession in which only an athlete could earn wages, and as the workers developed skill with the ax and better roads were constructed for hauling larger loads, the land value advanced and absorbed all the profits of their added efforts and improvements. Where an ordinary axman could make fair wages when paid 8 cents for hewing out a tie, the skilled athlete with an ax could earn big wages. Where an ordinary team could haul twenty ties at one load over the new forest roads, a better and heavier team could haul sixty ties over the improved highways and haul more loads per day. Thus the finer physical development and

more skilled men, the larger and better-bred horses, the wide-tired wagons and the better highways could not raise the earnings of labor. The harder the people worked, the more efficient their skill, the more labor they put on the highways, the better their teams, the higher went the price of the land and the less were their wages in the per cent of what they produced, and the more they would have to pay for the land to which their labor had given value. This is the reward of labor and the portion taken by the land.

While this was an actual case, it was isolated and in effect relatively small; yet it represents the principle involved in all cases of land value development. While in the earlier development of industry, capital was the prime object and the capitalist invested in land only that he might be assured an abundance of raw material for his factory; yet, wherever the woodsman blazed the trail for the settler, the millman and the manufacturer, there lay the land grant and the title of the speculating landlord. There might have been free lands for the settler, but the first choice was to the speculator, who, by feeing the government surveyor, had obtained lists of the most desirable lands. The hunter and the trapper blazed the trails, the settlers hewed out the wagon roads, and the capitalist—merchant and millman—followed with the stock of goods and with saw-mill and grist-mill, and later with the woolen mill. But the speculating landlord awaited results. The long arm of political influence could reach far into the forests to find means with which to pay for political favors; even the bare promise to dig a canal or build a railroad has obtained titles to princely domains. There was land in super-abundance, and the people seemed to feel that if it were not pinned down with a title it might get away. What was the harm of a grant of land hundreds of miles from a settlement?

To the earlier settler the lands of the speculator furnished a hunting-ground and a pasture for his cattle, while his labor in constructing highways and school-houses was giving to these lands a value. The earlier settler made the improvements which opened the forest and gave value to the land of the speculator; the growing population furnished the demand for these lands, and the present high prices are to cover land value costs. *But land capitalization can pay a dividend only by adding to the cost of production and to the price of the product.*

CHAPTER III.

TRUSTS.

As this work is not a discussion of institutions nor of individuals, those aggregations of wealth and productive capital which by adhesive accretion have become so immense in the past few years can be considered only analytically, leaving criticism to the individual reader.

Whether trusts are the result of conditions or the cause of conditions, there are two essentials in their organization: (1) values to consolidate, and (2) a system of consolidation. The values are essential, the system necessary. Of these institutions there are three distinct species, although they overlap or interlock to a limited extent. First, we have our old acquaintance, the "corner." Outside of a local condition, this was but a "gentlemen's agreement" in buying, holding and selling a present product which must be closed out before a coming and uncertain increase could reach and affect the market. The so-called copper trust of nearly a generation ago was of this variety. By contracting the entire output of the mines and withholding it from the market, they forced the price of copper to an unreasonable margin; but this very price so stimulated the production of copper as to overload the corner and it fell with the resulting fall in prices. Second, we have what may properly be termed the "combines." This, again, is a "gentlemen's agreement" whereby individual stockholders in several concerns of similar business interests exchange a few shares of stock so as to form an interlocking directorate. Possibly, the general manager of each concern is a director on the boards of all

the others. This being a personal arrangement, evades the law and yet complies with it. Third, we have what is actually the "trust." The trust proper is a corporation organized for the purpose of buying and owning or holding in trust the capital stock of several other corporations—not necessarily the entire stock, but a controlling major section of stock so as to control the business policy of the several subordinated corporations. At its organization the trust corporation may itself have no value to capitalize; but as the exchange of trust stock for the stock of the subordinated corporations is consummated the latter acquire added value, and any advantage accruing to the combine over what the several corporations formerly enjoyed is a net gain of value to be capitalized. Thus the trust stock, with no material increase, will have a greater value than had the involved aggregation before the trust was organized. This increased value may be bonded to obtain moneyed assistance for added productive capital or for strengthening marketing facilities, or bonds or stocks can be issued for a "rake-off."

But the object must be considered. It will be observed that the aggrandizement of capital and wealth always results in the aggrandizement of one or a few individuals, and that there are but few men who are capable of building up and managing an independent business who are willing to become subordinate and lose their business individuality. Such men are not working for income alone; they are working for personal freedom and self-development, as is shown many times by the price they are willing to pay for a high public office, the salary of which will not even repay the campaign expenses. The simple fact that the trust subordinates and suppresses individuality must be taken as circumstantial evidence that the managers of independent concerns do not willingly and of their own choice exchange their stock for trust stock. If this deduction is right, what is the impelling or com-

pelling force that causes leaders in the industrial world to forfeit their industrial and commercial independence?

With an up-to-date equipment of productive capital, with shipping facilities of average advantage, with circulating capital sufficient to carry necessary stocks of raw material and finance sales, with banking accommodations that can be relied upon to equalize the fluctuating conditions of stocking up and filling orders, and with a management and force of workmen such as our industrial situation can develop, there is but one reason why an independent manufacturing plant should become a part of a trust or combine. That one reason is its supply of raw material.

The land value of raw material and of franchises forms the nucleus of every trust. The combines, with their interlocking directorates, are but "armed neutralities"—capital with common interests confederated for self-protection against the interests that control their transportation and their supply of raw material.

A trust cannot prove successful if organized on capital alone. No matter what the volume of capital involved in the combination, no matter what its diversity in nature and locality, if it be strictly capital it can not put an unincumbered smaller capital out of business. But, if the trust controls some special privilege, if it secures rebates on freight or can side-track competing shipments, if it can secure discriminations in bank accommodations, it can embarrass and reduce the margins on smaller units of capital. If it owns and controls the resources of Nature it can absorb what it pleases and put out of business what it pleases, and do so on its own terms and at its own pleasure. A complete unit of capital, as represented by one of our modern manufacturing plants, can compete with a combination of any number of similar plants of equal advantages, but it cannot compete with Nature reduced to trust-ownership and trust-manipulation of land-

value royalties. A manufacturing plant must have raw material, and if it can go to Nature for that material it can compete with any other plant in the open market; but, if it must go to the trust for that material, and must compete with the trust in the open market, it can measure its profits and spell its destiny in any combination of letters synonymous with failure.

The ownership, or control through lease, of the raw material in Nature, the franchises and terminals of transportation, together with manufacturing and commercial capital, may be consolidated under trust ownership; but, no matter what the extent and variety of the actual capital —even though there be a factory and department store in every city—if the capital be separated in ownership from the land value of the special privileges, the monopoly will become as harmless to smaller units of capital as the rattle of a rattlesnake when cut from the body and strung on a string for a child to play with. An investigation of any and every trust will show the value of its capitalization to lie in the land value of natural resources and in the land value of special privileges granted by legislative enactments, and not in the value of its physical capital. A further investigation into the legislative enactments granting and regulating special privileges will show that 80 per cent of all graft and boodle in legislative bodies is to promote the granting and favorable regulation of land value and special privileges, while the remaining 20 per cent is to secure official positions for agents of special privileges, to the end that protection may be secured from adverse legislation and adverse court decisions.

The world is now facing a condition different from any condition known since the discovery of America. In this country we are facing an utter lack of fair quality free lands; such free lands as were the glory of our country's development and the foundation of our freedom are gone. The land has not gone; it is all here and there is plenty of

it; but a price has come on it which can be capitalized, and the dividend on the capitalization can be added to the selling-price of all the products of the land. There is no shortage of land nor any shortage of products, as many believe. There is no more reason in ascribing general high prices to a shortage in production and an increasing population than in charging the higher price of ice to a scarcity of water resulting from the increasing use of steam. There is no shortage in the iron and steel supply, nor in coal, nor in oil; yet all have advanced in price. Even in the case of lumber every demand has been met by a supply, and salesmen are running over the country trying to find sale for yard-dried stock. Any prospect of a future shortage should have no more effect upon present prices than a low birth-rate and high death-rate should have on the wages paid for labor. The old law of "supply and demand," which political economists evolved for the purpose of regulating prices, must have been repealed, since many things most abundant in supply are still rising in price, while labor, equally in demand, is now tending downward when measured by other prices. In the language of Artemus Ward, "Why is this thus and why so much of this thusness?"

Trusts and combines are charged with 'boosting" prices. But, reasoning from effect back to cause, are high prices the result of trusts or are trusts the result of high prices? Is it not possible that trusts are more a convenience or a necessity to protect certain interests and profits against a growing condition which was more easily felt than seen? The trust was not organized until the resources of Nature were under private ownership. The old combine was complained of because it would sell so cheaply as to kill competition. We complained then and we complain worse now. The greatest complaint is the cost of food, and as meat is the most expensive of foods let us take a look at the meat trust. Meat has been ris-

ing in price until we have come to periodically expect rises. The price of the land on which meat is being raised has been rising in price until only a barbed-wire fence will keep the stock from straying away.

About thirty-five years ago the writer saw the highways leading to an Indiana town so alive with droves of hogs as to impede the usual speed of a horse and carriage. This unusual outpouring of hogs was the result of an unusual advance in price—to four dollars per hundred for prime stock on the hoof. At this writing, the same quality of stock is selling readily at $9.00. This price, it must be borne in mind, is before the stock falls into the hands of the trust. This is an advance of 125 per cent that the trust must pay before it begins to "embalm" the meat and anaesthetize the people. Now, as a fair question, if the trust is so all-powerful, why can it not force down the price for the farmer and stock-raiser as well as to raise the price for the consumer?

Let us take the average land value cost of beeves in 1890 and in 1912. As all stockmen well know, it requires a certain average acreage of land to pasture and raise hay and grain for each head of stock. The actual amount needed for each head will vary with varying conditions of climate, fertility and rainfall; and, as we are only considering marketable stock, the horses and breeding stock necessary to the production of beeves must be fed from the same acreage that is allotted to feeding the beeves, thus increasing the acreage of each head that reaches the market. As the profits of the stockman come from the cattle sold and not from the stock necessary in raising them, it will be necessary to allot a larger acreage to each head sold than was actually needed by each head in the raising. This average acreage will vary from about four acres per head in the eastern and central parts of the country to forty acres in the most barren pastures of the west. The average acreage can be placed fairly at ten acres; and as the

price of the land varies with locality and productiveness, that too must be averaged. In 1890 much of the most fertile lands of the country were being pastured without price, while in 1912 all pasture lands had a price which must be added to the cost of the beeves. As eastern and central lands have fairly doubled in price in the last twenty years, and western lands have gone from government price to $5 and $20 per acre, it is entirely within reason to assert that the lands of the country devoted to stock raising have increased four-fold in price since 1890. As the cheaper lands of the west could produce at a less cost, on account of price, than the higher priced lands of the east, the result in profits was against the east. All other costs being equal, the low-priced lands could produce at a profit and sell at a price that left a loss to the high-priced lands—when measured by a dividend on the selling value of the land. This low-priced product could pay a profit to the west only so long as land remained cheap; and with the rapid rise in price of land the product must rise in price or be produced in the west with no more profit than in the east. When we consider the amount of land at government price, and at no price, that was devoted to stock raising in 1890, a fair estimate of the average price of all stock-raising lands cannot be placed above $5 per acre at that time. As the better lands of the west advanced in price to a par with eastern lands of equal quality, and as the poorer lands advanced from no price to prices varying from $2 to $5 per acre, taking in consideration the rise in eastern land values, we must place the value of the stock-raising lands of the country at fully $20 per acre in 1912.

In considering this estimate it must be borne in mind that very little stock is raised on the cheaper lands, the land of greatest advance raising the bulk of our stock; this fact raises the average acreage price per head of the stock.

1880 to 1885 saw the beginning of the end of the old western conditions. 1890 to 1895 saw the "rustler" giving way to organized society, and 1900 found the wild and wooly west threading the trails and passes of Alaska. The land values of California were tipping up and sliding people over the mountains to the eastward, meeting the tide from the east and forcing irrigated sage-brush plains to prices of $100 and $200 per acre for the bare land. The nineteenth century went out with promoters capitalizing the last of our free lands and the last of our metals, coal and timber; and with capitalization came the price to pay dividends on the newly capitalized land values. The stock-raising lands of the country, east and west, had advanced to fully, if not more than, the average of $20 per acre.

As it takes three years to produce a first-quality steer (in the West the cow must be charged to the pasturage of the steer in the first year) and an average acreage of ten acres, we have three times ten acres, or thirty acres in the three years. Thirty acres of land at $5 per acre equals $150, and 5 per cent interest on $150 equals $7.50, making the land value cost of a steer $7.50, on land at $5 per acre. This was the average land value cost of a beef in 1890. In 1912, with $20 average land value and the same acreage per steer, we find $600 of land value which, at 5 per cent, equals $30; an advance of $22.50 in the land value cost of raising a steer. Nor is this all, because each dealer must have the same margin of profits on this $22.50 as on the balance of the steer's value.

Let us follow this $22.50 on through the hands of the dealers to the price paid by the consumer. We are not considering the full cost and price of the steer, nor the price of the beef; only the added cost coming of a rise in land value. This $22.50 is on the ranch and farm before the steer starts for the market.

As the buyer and shipper must stand the risk of loss and inspection, a 20 per cent margin is not at all unreas-

onable to insure a profit. Twenty per cent of $22.50 equals $4.50, which, added to the $22.50, makes $27.00. This brings the steer to the "packing-trust" with an advance of $27.00 over former prices, which it must pay before the meat is "embalmed." Now, as the meat trust was organized between the dates mentioned, and as it is subject to investigation by the powers that be, we will skip over their questionable profits and go direct to the retailer. As the retailer cannot afford to handle and cut up meat for less than 20 per cent, we must add his profits, $5.40 to the $27.00, making $32.40 as the added cost to the consumer, resulting directly from the rise in the price of the land necessary to graze and produce hay and grain to raise and fit a steer for the market. If we allow the meat trust but a 5 per cent margin, and consider the advanced rental values of stock-yards and cold-storage plants, together with the higher rents paid by retailers, it will bring the added land-value cost of a three-year-old steer, since 1890, to fully $40 or $45. This will nearly double the price of meat—independent of the enormous trust profits. And this $40 to $45 is not the cost of the steer; it is only the added land-value cost of the steer—before it falls into the hands of the trust—and the retail market's added cost in selling the meat. The reader may figure the profit of the trust at what he pleases; that is not included.

But, we are frequently told, there is a shortage in the meat supply. Ocular evidence will hardly bear out this assertion. No one has yet failed to find a plentiful supply and an abundant variety in even the smaller markets of any city. A real shortage is when the supply fails to materialize and none is available.

In a careful consideration of our meat supply we can only depend upon the government reports for a basis of estimates. The annual reports of the Agricultural Department show variations in the number of meat-producing animals too great for accuracy. The annual reports on

the production of such grains as wheat, oats, rye and buckwheat are fairly accurate, since they are based on the reports of all known threshing-machine owners, and the cotton product is estimated from the reports sent in from the gins. But the quantity of corn and the number of animals can only be estimated, except in census years, when animals are very closely counted. In considering our relative meat supply, we can therefore rely only on census year enumerations and estimate an increase of poundage per head coming of improvement in stock breeding. The pound of meat and not the head of stock being the unit of supply, it is fairly safe to estimate that the better stock of today will render 20 per cent more poundage of meat per head of stock than that which was marketed thirty years ago. About 1890 was high tide in meat production in this country. The greater portion being produced on low-priced lands, the price was correspondingly low. The export of meat at that time was much larger than now. Between 1890 and 1910 the population of the country increased 49.5 per cent and the per head of meat-producing animals increased 20 per cent. Add the 20 per cent of increased poundage per head and we have a 40 per cent increase in our meat supply. And as this 10 per cent shortage only relates to the 50 per cent increase in population, the total supply to the total population has varied only 3½ per cent since the high tide of 1890, and with lower exports—thus leaving the question of any shortage in doubt. But how about the price?

The same cause which has raised the price of meat has raised the price of all other foods except those made from wheat. The market for wheat being world-wide, the low-priced and free lands of the Canadian north-west, of the Argentine, and of Siberia are yet holding the price down, as did the free lands of our western states prior to 1898. Just as our eastern farmers formerly complained that they could not compete with the cheap lands of the west in

wheat-raising, our western farmers are now beginning to complain against the cheap lands of the Canadian Northwest. Corn is relatively higher than wheat, for the simple reason that it requires a warmer climate than does wheat, and the cheap and free lands of sufficient fertility for wheat-growing are too near the poles for corn. This climatic condition of the cheap farming lands also affects the price of meat, since stock-raising, to be profitable, requires a short winter or ranges where stock can graze the year round.

A practical farmer gave, in a Cleveland paper, an itemized cost on growing an eight-acre field of wheat in northern Ohio. The following is the estimate he gave:

Plant and plowing, 11 days at $4.50 a day	$49.50
Ton of fertilizer	28.00
16 bushels seed	16.80
Cutting and shocking	12.00
Threshing	16.50
6 per cent interest on $800, valuing land at fair farming price of $100 an acre	48.00
Total	$170.80

Cost per acre, $21.35. Average yield, 20 bushels to the acre.

This gives a yield per acre of 20 bushels at a cost per acre of $21.35; or a cost per bushel of $1.06¾. As stated, the land is valued at a fair farming price of $100 per acre at 6 per cent; or, there is a $6 per acre land value cost in the wheat, which amounts to 30 cents per bushel on a 20-bushel yield. The team work is entered at $4.50 per day cost, which is an advance of $1 over 1898, an added cost made necessary by the increase of land value in raising and feeding a team. As farming land is now capitalized, $100 per acre is very reasonable on land that will produce 20 bushels of wheat per acre. The average yield being less than 12 bushels per acre, land that will yield 15 bush-

els per acre is now capitalized at fully $100 per acre, a cost per bushel—at 6 per cent—of 40 cents per bushel of wheat. Thus, it will be seen, the farmers of the United States can no longer afford to raise $1 wheat on present land capitalization. There is now no more profit in $1 wheat than in 50 cent wheat in 1888-97 to the growers on our cheap western lands. To capitalize 20-bushel wheat land at $200 per acre, and other lands in proportion to yield—when we consider the added cost of team feed—it will require $2 wheat to pay a fair dividend on the capitalization. This higher capitalization should naturally follow the absorption and capitalization of the now free and low-priced lands of the world.

Wheat and oats are the only food products which are now relatively low-priced, when compared with the actual labor cost of production. They are relatively low-priced only because low-priced land is a much larger factor in their production than in that of other foods. It is land cost, not labor cost. Yet farm lands are the freest from trust organization, and farmers have the weakest combines of any industrial class controlling natural resources. With an organization among farmers as strong and combative as labor unions, the prices of food supplies could be doubled and the beef trust could be put in cold storage. The beef trust has special privileges only in transportation, while the farmers can control the very supply itself, and do now in a measure by only half-tilling their land. The very nature of rising value in tillable lands brings about a trust condition without any organization or "gentlemen's agreement." Land value is a consolidation within itself which will raise prices without an organization or common agreement, and can and does produce autocracy that is invulnerable to any aggregation of mere capitalistic wealth.

To show how the power of land value asserts itself independent of any trust organization, it is but necessary

to read the following clipping from an Indianapolis paper. Full names are omitted:

"Washington, Ind., April 14, ——

"'Night Riders' are terrorizing land owners and tenants in the vicinity of Harriman's Ferry, south of this city. W——— S———, owner of 700 acres in that neighborhood, reported that 20 men on horseback visited all his tenants and informed them that if they paid greater rent than one-third of the crops raised, their crops would be mowed down before they became ripe. Some of the tenants were threatened with violence.

"A riding plow belonging to W——— B——— was destroyed with an ax. Farming machinery belonging to tenants on H——— H———'s farm was destroyed. J——— T———, a wealthy land owner, received by mail a package containing powder and matches, with a note of warning of what he might expect if he insisted on one-half-crop rental.

"A few days ago a stranger entered a store at Ivy and asked the merchant for a reduced price on all the carriage whips in stock. This is taken to mean that the riders intend to administer floggings to tenants who will not heed their warning."

Land value demands one-half; the tenant, the man who puts up the working capital, is threatened. Land value goes free, the tenant suffers.

In *Munsey's Magazine* for June, 1908, there is an article by the publisher, Frank A. Munsey, on "The United States Steel Corporation," in which is given a scheduled list of the various properties owned and controlled by the so-called "steel trust." Of the mining properties, some are owned and some are leased, but of those owned, and of those where the lease carries absolute title to the underground values, Mr. Munsey mentions 191,837 acres of timber lands carrying 803,868,000 feet of saw-log stock and 1,461,000 cords of lagging, pulp wood and cord wood;

iron-ore lands in the Lake Superior districts and in the Baraboo district, Wisconsin, having an estimated tonnage of 1,182,815,200 tons; unmined coking coal in the Connellsville region, Pennsylvania, 82,618 acres; in the Pocahontas region, West Virginia, 65,497 acres; in the Pittsburgh district, Pennsylvania, in Ohio, Indiana, and Illinois, 37,761 acres; gas territory in Pennsylvania and West Virginia, on which there are 376 gas wells and 5 oil wells, 208,985 acres; also limestone properties in various states valued $2,619,529. In addition to those landed properties the Steel Corporation also absorbed the properties of the Tennessee Coal and Iron Company, listed at 700,000,000 tons of iron ore and 1,000,000,000 tons of coal. Then we must add the conditional tonnage leased iron mines, known as the Great Northern or James J. Hill ores.

While Mr. Munsey estimated a price value on all this property, his estimates include the working capital (plants and machinery) which is in use in developing this land value of crude raw material. He also lists, but does not price separately, 8,089 acres of factory sites, owned by the original plants, and 9,000 acres at Garey, Indiana, also the right-of-way franchise of 1,355 miles of railroads, together with terminals and docking facilities, all of which are land values. But as we are using Mr. Munsey's estimates we will also use his comments on his estimates:

> "From the fact that the known supply of ore in the country is limited, it may well be worth two or three times this price.* There is no way of telling just what it is worth. But as a guide to the value of ores, we may take the price for the Great Northern ores fixed upon between James J. Hill and the Steel Corporation. The Great Northern Railroad and the Northern Pacific had vast holdings of iron ore in the Messabi Range, and after many months of negotiation the Steel Corporation entered into a contract a year ago to take all this ore at a certain price per ton, the price to be advanced 3.4 cents each year over the preceding year.

* Approximately $830,000,000.

"The first year's price, which covered the year 1907, was 85 cents a ton. This year it is 88.4 a ton. On this basis the price will soon be over $1 a ton, and the average cost for the entire supply will be considerably in excess of that figure.

"And this ore is supposed to be of a lower grade, as a whole, than the ore owned by the United States Steel Corporation, which in this inventory has been conservatively, ultra-conservatively, figured at 60 cents a ton. If the Hill ore is worth over $1 a ton, the ore of the Steel Corporation is worth quite as much, and even more, as it is of better grade. And these prices of this Northern Pacific ore have an important bearing on the ore properties of the Tennessee Coal and Iron Company.

"I should think that Mr. Charles M. Schwab is as good an authority as there is in the world on the value of iron ore. He said to me two or three days ago that the ore holdings of the Steel Corporation were easily worth $1 a ton, and, in fact, might safely and conservatively be regarded as worth still more, for the reason that they can not be duplicated.

"You will observe that the contract for the Great Northern ores has not been listed as an asset in this inventory. No account has been taken of it, though it is of immense value to the Steel Corporation. It is not only an insurance against competition, but it makes certain a longer period of easily obtained ore. One of the directors of the Steel Corporation, who is a very big man in the financial world, said to me yesterday that he thought this contract worth $500,000,000 to the Steel Corporation, and that if an offer of that kind were made for it he should vote against the sale. Whether this estimate of its value is excessive is problematical. His judgment, however, is usually very sound.

"If there are items in this inventory that have been overvalued, there are other items that have been undervalued, greatly undervalued. Our purpose has been to keep under actual values, rather than to exceed them, and in the case of the ore lands and coal lands our figures are probably very much under actual values today. Indeed, if a less conservative policy had been pursued in this compilation the total property of the Steel Corporation could easily be figured up to two billions of dollars.

> "In the preparation of an article of this kind I have, as a matter of course, had to rely mainly upon others—men who possess technical knowledge—for facts, figures and valuations. The whole thing is so enormous, so overwhelmingly enormous, that it looks like fiction, but there is no fiction in it."

"The whole thing is so overwhelmingly enormous," as Mr. Munsey says, that there is little wonder that every independent concern that did not own a supply of raw material was more than anxious to get in "out of the wet" when it was fully realized that the coal and ore of the country was cornered in a few hands. Those which stayed out of the trust, like the Republic and Tennessee companies, owned their independent supply—although the Tennessee company was undermined in its finances later. It did not join the trust willingly.

As we are only following the development of land value capitalization, and not personalities, individual or corporate, it really appears from a fairly close estimate that the actual capital—independent of all land value—which entered into the Steel Corporation did not exceed $300,000,000. That is, all the working capital which was the result of material increase, and which could have been destroyed by exigent causalties or human design, would more than likely have fallen under rather than have gone over $300,000,000.

To prove that the Steel Corporation is a land value trust and not a capital trust, we will suppose that if within a reasonable space of time all of the material working capital of the corporation is by design or calamity to be destroyed; that all their plants and their machinery of every kind, together with their railroads, their ore barges and docks, are to be destroyed, and that their title to their mining properties, their factory sites and their franchises are to remain. All they will have lost could be restored in a short time from their land values without

any very appreciable effect upon the value of their stocks and bonds. Like the destruction and re-building of San Francisco, the needs of commerce give a land value which can replace all capital. But, let fire pervade the reaches of coal-fields, let earthquake sink the iron ores, or let court decisions set aside any large portion of their mine holdings, and conditions would change, and dissolution would result, with the subsidiary companies resolved to their original independence.

One billion, two billion, five billion, or even ten billion dollars' worth of coal and ore—put the price as you please, Mr. Munsey says, there is no way of telling what it is worth, and Mr. Schwab says that it can not be duplicated. The actual capital of the Steel Corporation is but as a wart on its land value holdings.

When Mr. Carnegie was summoned to give testimony in the "tariff hearings," he adroitly evaded direct answers by saying that he was out of the iron and steel business; but when pressed to express his opinion on costs of production he answered: "It all depends on how you figure it."

It is possible that Mr. Carnegie with his influence was more active and effective than any other man in buying and leasing iron and coal mines. His purpose was to strengthen the Carnegie company, and the mine royalty was never a large item of cost of their output. Mr. Schwab says that the Carnegie company purchased on a ten-cent basis; Mr. Carnegie refused to put his property into the trust, but sold out to the trust. The Carnegie company was capitalized at $150,000,000; Mr. Schwab testified that no one knew how much was ever put into the company, as the property was developed by the company, but believed that over $100,000,000 was put in. The deduction must follow, therefore, that the difference between the value of Mr. Carnegie's interests in the $100,000,000 cost of steel plants and what he received from the United States Steel Corporation in money, stocks and

bonds, represents the land value of his interests in the acquired mines. Those who have pried into his private affairs have estimated this amount as about $500,000,000. Only the principle involved is being considered here.

It follows then that production cost, as Mr. Carnegie says, "all depends on how you figure it." According to Mr. Schwab, The Carnegie Company could figure the royalty cost of iron ore as low as ten cents per ton. According to Mr. Munsey's figures (based on the price of the Hill ores, now given up on account of U. S. trust litigation) The Steel Corporation must figure the royalty cost on its iron ore as high as one dollar per ton. As it requires, approximately, three tons of ore to make one ton of steel, it follows that the Steel Corporation must figure $2.70 more land value royalty cost on iron ore in a ton of steel than did its predecessor, the Carnegie company. This $2.70 is a cost to the Steel Corporation and not a profit; a cost which they have paid for the privilege of owning and controlling the resources of Nature; a cost which must be covered in selling-price, or they will be productive at a loss. But this $2.70 is only on iron ore; the same relative increased costs apply to their coal supply and their limestone and their transportation and their factory sites. The Steel Corporation took over in its organization about $300,000,000 of actual capital, and in connection with this capital they purchased and paid for mines and franchises an amount exceeding $1,000,000,000. To the original capitalists, capital was more a matter of development than of actual money investment, and dividends and profits could vary with fluctuating markets without serious loss. To the original mine-owners the cost of the mine was only incidental to other costs and developments which were paying wages and profits. To the Steel Corporation all is cost to the full extent of their capitalization and bond issue, since their stocks—common and preferred—have been sold for cash on a dividend-paying basis. Having

sold stock on a dividend-paying basis, the whole capitalization of the Steel Corporation becomes as much a cash investment as would a house for which a man gives $2,000 cash and a mortgage of $2,000 for balance of payment. The simple fact that he must pay interest on the mortgage makes of it a cash investment, and if it is rented he must have rent sufficient to pay a dividend on the $4,000. Where the Carnegie company could have classed as profits all margins over and above labor and capital costs, The Steel Corporation can have profits only in margins over and above labor and capital costs—plus land value costs; that is, in a margin over and above royalties sufficiently high to pay interest on a cash investment in land values approximating $1,000,000,000, possibly $1,200,000,000.

The United States Steel Corporation is selected as an example to show the increase of land value as a cost in production, not because they are worse than others; but for quite the reverse reason, since they have been most open and fair, not only in their treatment of smaller competitors, but in their willingness to lay bare the actual facts concerning their property and organization. No other trust "under fire," or in its dealings, has shown the honor of the steel trust. Nor was there any answer given in the tariff hearings which was more laconic and to the point than Mr. Carnegie's, "It all depends on how you figure it."

Of the natural utilities discussed above, timber and oil have much higher land value costs than have the component requisites of steel. Fuel coal has a higher land-value cost than has coking coal.

"Capitalized earning-power" is not "watered stock," it is capitalized land value; as much so as is the rise in the price of city real estate and rentals. It is all a higher capitalization of land values and must all enter into the costs of production and be covered in the higher prices.

In one of Ohio's industrial cities, in the mid-summer season of 1912, the writer took occasion to observe the

workings of the Natural Land Value Trust—the unorganized trust which induces and compels those organizations so much condemned, the parent trust to which the steel trust and the oil trust are but infant offspring. In a city of about 50,000 population, there are platted vacant lots, and lands withdrawn from use and held to be platted, sufficient for a population of fully 200,000. On the principle of supply and demand, therefore, prices of vacant property should tend downward; but, on the principle of a profit on investment regardness of material increase of produce, prices are necessarily advancing. While the city has increased about 50 per cent in population in the past ten years, this vacant, unproducing land value has advanced fully if not over 100 per cent in price—that being the necessary ratio to a profit where there is no increase other than price. While these owners of vacant lands are protesting against "trust-prices" which are so high as to prevent wage-earners from buying and owning homes, they never refer to their higher and rising prices on lots as being "watered." Wherein is the difference?

Beyond these vacant properties, undulating for miles on every side, stretch gardens and farms as fair as any of which proud Ohio can boast. From these gardens and farms is coming a profusion of mid-summer fruits and vegetables; and those unorganized, trust-denouncing, fair-minded farmers are selling from door to door at prices, by reason of the freshness of their wares, which over-top the prices of the organized, trust controlled commission men. They are selling common vegetables at higher prices per pound than meats cost 20 years ago. The very prices of their produce still further enhance the value of the land, which must soon demand higher prices to pay dividends on the higher capitalization.

Organized or unorganized, the greatest of all trusts is unrestrained land value. Capital and labor must bow down to it and pay the price.

CHAPTER IV.

A SAMPLE TRUST.

The specific virtues of trusts in their relation to the producing and consuming public, as proclaimed by their friends, may be summed up about as follows: FIRST, reduction of costs of production by (1) more economical capital expenditure; (2) reduction in number of official heads; (3) reduction of selling expenses; (4) saving in waste by regulation of supply of raw material; SECOND, prevention of market fluctuations by (1) regulation of output of finished products to needs of the market; (2) turning of productive force to filling of greatest needs; (3) maintenance of prices at a fair margin of profits, and (4) payment of better wages from fair prices. All of these should certainly be beneficial; but "it all depends on how you figure it."

If capitalization is to be pensioned by stock issues; if the output must clear 100 per cent margin in order to pay 5 per cent dividends on capitalized raw materials lying in the earth; if $1,000,000 is paid in salary to one man where formerly ten men received an average $20,000; if labor must be idle and wages reduced to equalize loss resulting from reduced output; if the smaller manufacturer must pay prohibitive prices for raw material and compete with the trust that controls the resource; if prices are to be cut in one locality and raised in another on the same article at the same time; if the men who own the earth feel that they know better how to run it than He that made it, then it might be well to get someone else to figure costs, as "it all depends on how you figure it."

As a full-grown trust is "so overwhelmingly enormous," it might be well to construct a little one as a working model, and after we comprehend the working principle it can be enlarged to any extent consistent with the resources and requirements of any number of people. But, remember, "it all depends on how you figure it."

A ship went down at sea and among those who reached one of the boats were a financier and his secretary, and with them was $1,000,000 in gold.

Afloat in an open boat, day after day for weeks, as the food and water gave out, one after another was lifted over the side, until the boat, helplessly drifting, was gently landed on a bounteous island in a tropical sea. The secretary of the lost financier and the ship's mate were the only ones left to drag themselves up on the beach and eat of the profusion of Nature's food supply.

At first, as savages in a wild land, they had only the animal instinct of self-preservation; but as plenty of food revived their strength the superior qualities of civilized man came back to them and they began to examine their surroundings. They found themselves possessed of a fertile island and $1,000,000 in gold, and as civilized men they set about a division of their wealth. As the ship's mate had never been possessed of over-much money, he jumped at the offer that he take all the money and the secretary take the boat and the island. And so the division was made with a solemn pledge that each should respect the property rights of the other.

The next morning as Jack, the sailor, was about to gather some breakfast for himself, J. Tom, the secretary of the dead financier, reminded him that he was trespassing.

"Well," answered Jack nonchalantly, "if you intend to be stingy about it, I guess I can pay for what I need."

"Not stingy in the least," answered J. Tom, "it is just purely a business matter. We have divided up the property to your entire satisfaction, and I am just in-

sisting on my legal rights. What is the use of having property unless one can derive an income from it?"

'Very well, what's your price for breakfast?" asked Jack.

"Five hundred thousand dollars," answered J. Tom.

"Five hundred thousand dollars! Why man, that is unreasonable. It's nothing less than highway robbery."

"Nothing unreasonable about it. You know that luxuries are always high in a new country, and you well remember what a luxury a good breakfast was when we landed on this island. And you know that a large per capita circulation always makes high prices, and of all the countries I have ever been in there is a larger per capita circulation here than in any of them."

"But your price is too much, I won't pay it," answered Jack.

"Very well, suit yourself," answered J. Tom. "If you don't like my price you are at perfect liberty to buy of the other fellow. I have no strings tied to you."

"Well, I can make a boat and leave the island."

"Suit yourself about that. This is a free country and every man acts as suits himself. But material is a little scarce here, and I shall have to charge you about a million and a half for the material and provision for your trip. Now, you can think it over while I am getting my breakfast; but remember that I am indifferent in the matter and do not wish to interfere in the least with your personal freedom."

Jack thought it over and when J. Tom came back he asked the price of dinner.

"Same price," answered J. Tom, "all meals are the same price."

"Well you've the bulge on me and I may just as well give up; but what'll I do for a living after that?"

"Now, see here, Jack. I don't want you to feel that way about the matter. It's a purely business affair and

you can't blame me for charging what my property will bring in the open market. You can't ship anything in for less than that, even though I let it come in free of duty. But I've been thinking it over and have concluded to give you a much better price. I'll do the fair thing by you. I have organized a trust to control production and prices and systematize expenses and prevent waste."

"I'm glad to hear that," answered Jack," " 'cause that's being pretty hard on a fellow, you know. But how about the future?"

"Well, I've been thinking it over and concluded to throw off one-third on the price of meals, and give you three meals for a million instead of two. That's a big discount, you can't deny that. In fact, it's really fifty per cent off, as I'll throw in your night's lodging. Now, about the future: I will hire you at good wages. I don't believe in low wages for workingmen. I've decided that wages will be high in this country, higher than in any other country on earth. High prices are what make prosperity. I have decided to pay you higher wages for common labor than any billionaire on earth now receives in interest, profits, rents and rake-offs. I will pay you a round million a day, and you won't have to work over two or three hours a day at that.

"Now all that you'll have to do to earn your wages is to produce enough provision for nine full meals every day, and after that you can do as you please. I'll sell you three of the meals at the reduced price, the same price as today, thirty-three and a third off, and throw in your lodging. But there is one thing that I must insist on. I don't know your hereditary tendencies. Some of your ancestors may have been vicious, and I must tie you up every night. That will not interfere with your work, as I will untie you as soon as I wake up in the morning."

"That's worse yet," declared Jack. "That's making a prisoner of me, and only allowing me enough wages to pay my board."

"Well, we'll not quarrel about that. Of course, you can do as you like about it, but you can readily see that I can't pay any higher wages, as that is all the money I have; and you know that with imports as limited as they are here the local market will naturally run very high with a large volume of money in circulation. If I could tie myself up and feel just as safe I would just as soon do it, as it is only for the night anyway. You certainly don't want to run around nights."

The deal was on, and Jack went to work at a million dollars a day, but at the end of the first week J. Tom came to him and instead of untying him as usual, said:

"I am very sorry, Jack, but there seems to be an overproduction and I think you had better take a lay-off for a few days."

"But what am I going to do for something to eat?" asked Jack.

"What have you been doing with your wages? I've paid you six million dollars during the past week,—the highest wages any man ever received, and you should have saved up something for a rainy day."

"But, I had to pay it all out for food," protested Jack. "If you would raise my wages or charge me less I might save a little."

"But I can't do that without a loss. Figure it out for yourself. I paid you six million dollars in wages and only sold six million dollars' worth of produce. I have 'allotted' all of my capital to your employment and haven't made a cent of profit on a six-million-dollar trade. If I raise your wages it will take more money than I have, and if I cut the price of provision I can't sell enough of it to pay your wages. The cost of the produce is all labor, and it should sell for enough to pay the cost and leave a profit on capital investment. You see, I have a million dollars invested in giving you work—just 'allotted' to give you

work, and it isn't paying me a cent of profit. I've only had my board, the same as you."

"Well, for God's sake, give me something to eat. Don't let me starve."

"Don't you know there is nothing so demoralizing to laboring men as charity?"

"Just give me a part of what my labor produced in the past week."

"You have already been paid for that, but I'll sell you some on credit, although you are such a spend-thrift I fear you will never save enough to pay the bill. I am figuring on a tariff schedule to protect your labor, and a new credit money system, as our currency seems to have no elasticity; but meanwhile if you can strike another job, don't hesitate about taking it on my account. This will be a free country and an 'open shop' as long as I run it. I'll untie you so you can look for another job."

Here we have a logically illogical condition which can be figured out to fit or befog any personal interest or bias that reason or the lack of it can argue into or out of our economic system. It contains the essence of the trust, the essentials of a panic, and the essentialty of the stock assertions that labor is the chief cost in production and that distress among wage-earners is the result of their not saving up their wages. The conditions are but the condensation without elasticity of those conditions under which we labor and prosper. The argument and assertions of J. Tom are unanswerable so long as we figure the cost of production as being only what comes above land value costs. Science measures all heights from sea level, but mechanically and commercially we measure everything from any water or land level, regardless of its elevation above the sea. As the land value in the raw material has become so thoroughly intermixed with the manufacturer's stock on hand, and provided for in stock capital, it looks as if labor cost and capital waste is all there is in pro-

duction costs. Land value is so immense that it looks more like a force in Nature than a cost in commerce—so much so that it is accepted without disparaging comment by the most rabid advocate of capital confiscation. It is so insidious as a cost and so blended with the earth itself and so intimately associated with capital that to most people it is much as when

> "Yankee Doodle came to town and wore his striped trousers,
> He said he couldn't see the town there were so many houses."

As a "captain of industry," J. Tom had paid out $6,000,000 in wages and had sold only $6,000,000 worth of produce. He had not made a cent of profit; how could he pay higher wages or sell his produce below cost? True, he had a surplus produce on hand—an over-production—but as there was no cash market for it, what must go to waste could not be called a profit. To sell on credit gave no assurance of future payments. To sell and consume on credit was only to recognize a debtor condition and not to create one. The debtor condition was created, not with the first granting of credit, but with the condition which first made credit necessary. It was a debtor condition, coming of the inurement of the land to consolidated ownership, that compelled Jack to part with his $1,000,000 on the first day of the improved system of civilized commerce. But it should be observed that he did not pay it out for produce; he paid it for the privilege of producing produce. The land value created the debtor condition, and the first installment on the price was $1,000,000, with future installments at the rate of $1,000,000 per day. And it will further be observed that, while the debtor condition was only $1,000,000 per day, the land value price was $3,000,000 per day; J. Tom was receiving produce sufficient for nine meals and selling only three meals to pay labor cost. This gives a labor cost of only one-third and a land value

cost of two-thirds in the produce; the labor cost being neutralized in paying for land value costs. Labor (productive force), being compelled to produce three times its own needs, was also compelled to become responsible for the whole produce; and, as land value could or would only consume one-third, and as productive force could only consume one-third, the other third was over-production, with the burden resting upon productive force, since overproduction means suspension of production—with land value absorbing all capital.

A debtor condition is created by the price of privilege and it compels productive force (capital and labor) to produce and sell more than they can buy and consume. To them this margin is a surplus, and if they who collect for the privilege do not buy and consume in quantities equal to this margin we have a market surplus, since the costs entering into the product do not enter the market in buying the product.

In this connection it might be well to consider margins or profits on investments.

Judge Gary, chairman of the finance committee of the Steel Corporation, in his testimony in the "tariff hearings," said in substance, that in view of the actual value of the Steel Corporation's holdings the capitalization might be much higher, and that the dividends on the (approximate) $1,500,000,000 were very low when the actual value of the property capitalized was considered. He said, in effect, there should be profits on all investments.

From the view point of actual value he was right; but he did not say whether he would capitalize up to $5,000,000,000 or $10,000,000,000; either of these incomprehensible figures is fairly modest in view of the actual quantity and value of the resources which the Steel Corporation controls—especially when we take Mr. Schwab's view that these holdings can not be duplicated. But, in view of the fact that the dividends must come from what is

taken out of and not from what lies in the ground, he did not suggest or figure out the amount of the increased price on steel necessary to pay dividends on a higher capitalization. While there can be no question concerning the extent or values of these holdings, it must still be evident, as the value is based upon their vast quantity and, as present users of steel have no present use for such vast quantity, that the present users must pay dividends on the latent raw materials which future generations will use. How can it be otherwise? The capitalization covers the value of what lies in the earth as well as of what is taken out. Of what lies in the earth, all but a small portion is for future use, but it is all capitalized and its value is drawing dividends. If this would relieve future generations from royalty costs in their uses of steel it might work out all right, since we are building largely for the future. But, under present economic conditions, we are building bonded indebtedness and land values for the future to pay exceeding the worth of all the material increase which we will pass on into their use. We are building for the future, but God help the future if it must pay our debts.

Profits on investments need not necessarily mean present dividends on capitalization; the investment can lie dormant while the property of the investment is developing in value, and the profit can be realized in a future sale at the advanced price of the development. This is usual land-value speculation, and this is the price which the Steel Corporation paid to the former owners of the mines and to the promoters of the trust organization. The former owners had converted the dormant raw materials, which must lie in the earth for generations, into active interest-bearing bonds which the Steel Corporation must see paid out of present output.

But speculative land value investments, to prove profitable, must double in price value every ten years. This

estimate is based on commercial interest and the cost of taxes and wardenry. The average income on loans is possibly the lowest of economic incomes, and speculation to be profitable should equal average incomes on loans and all costs necessary in holding and caring for the property. This would necessitate a doubling in price every ten years. Thus, while the unquestioned values of the Steel Corporation's holdings might not pay a present dividend on capitalized investments, an ever-increasing price might nevertheless allow a future profit-taking from the margin of the land value increase. This would be in accord with the rule of development of landed investments and in accord with all business ethics; but what would be its effect upon the future?

While we are much younger, as a people and in business, than are European countries, we are much ahead of them in land value capitalization. They have confined profit-taking to a small margin on productive increase, while our financiers have capitalized dormant resources and taken profits from prospective future increase. On the assumption that investments in idle or vacant lands are entitled to profit margins, and in view of the fact that to be profitable such lands must double in price every ten years, what would be the cost now of producing a ton of steel in England, if the iron and coal mines had been capitalized two hundred years ago at one cent per ton and had advanced in price since then at a profitable ratio?

In attacks on banking institutions and on money-lending in general, we have often seen the astonishing results of various rates of interest compounded for long series of years. These astounding figures are compiled by some well-meaning, would-be reformers who have discovered the burdens and inconveniences of debts, but who have never examined to find their origin or cause. In their efforts at reform they are very much like the young dog upon finding his first bear-track. He set up a howl and fiercely

attacked each footprint without following the track to find the animal that made it.

Now, on the principle of investments paying profits, if the iron and coal mines of Great Britain had been capitalized two hundred years ago at one cent per ton—a very modest price—and had doubled in value every ten years—only a fair margin on investments—the land value cost of a ton of pig iron, varying with the quality of ore and coal, would now be from $12,000 to $16,000. This would place the land value cost of steel at from $40,000 to $60,000 per ton. "It all depends on how you figure it," so figure it out to suit yourself, but be sure to leave speculation a margin for profit-taking.

But why condemn the steel trust for doing on a large scale just what all others are doing or trying to do on the largest scale within their means—or meanness—as the Dutchman put it? *The real trust is land value.* The Steel Corporation, by capitalizing its mines, has only done in added price what individuals without organization had already done to the price of timber stumpage, and what the unorganized land owners in cities have done and are doing to the rental price of business blocks and to suburban vacant lots. The unorganized owners of the sage-brush plains have boosted prices of unimproved lands to points which, if applied by a trust, would raise a greater howl than ever rose from a dog pound. Irrigating lands and "watering stocks" are viewed as very different things, even when the effects are the same.

All trusts are of land value or of capitalized special privileges or of discriminating revenues. The whiskey trust is based on the still tax with the differentials in excise in favor of quantities distilled. Abolish the still tax and equalize the per gallon excise and the bottom will fall out of the whiskey trust. The tobacco trust, while assisted by the excise law, was more of a capital combination; but, unsupported by law, the organization of tobacco-growers

would soon have put it out of business as a trust. The sugar trust is based, not upon the tariff on sugar, but upon the differentials in duties and the control of sugar-fields. The oil trust was started on freight rebates and now has pipeline control and ownership and lease of oil resources. The beef trust had an advantage in transportation, and in earlier days was charged with selling below local profits, while later they advanced prices to consumers as land values increased costs to them. Pork having advanced 300 per cent and beef having advanced 400 per cent on the hoof before reaching the trust, it was up to the government to investigate high prices and dissolve the trust. With the dissolution of the beef trust, "the old cow jumped over the moon."

The five-cent loaf of bread still holds its own. The "staff of life" still looks and tastes and costs the same. "Corners" have temporarily forced up prices, and taken profits from fellow-gamblers, but no trust has yet been able to raise the price of the loaf to the wage-earner, for the price is regulated by the low-priced lands bordering on the frigid zones.

One of the most pathetic charges against trusts is that the trust prices of necessaries are so high as to prevent wage-earners from buying and owning their homes, homes constructed of material in which the land value has advanced 300 per cent, and built on land which has advanced 1,000 per cent in price since the wage-earner began saving up for the first payment. The $62,500,000 commission received by J. P. Morgan & Co., for organizing the steel trust, is a small percentage, total values considered, when compared with the commissions which a real estate dealer receives when selling homes to wage-earners.

What is a trust without land values and special privileges? "Upon what does this our Caesar feed that he hath grown so great?" Examine the feed; if necessary, change it.

Chapter V.

OUR FOREIGN TRADE.

While the term "foreign", when applied to commerce, does not necessarily mean outside of our national boundary line of tariff protection, it will nevertheless be so used here, unless it is otherwise stated. But, as we are foreign to other nations, it will be used also in the broader sense, which will include us as foreigners when the trade of another country is considered.

Our policy of protection to industry needs no mention; but it might be well to consider what it is that is demanding the greatest percentage of protection in order that, as it is claimed, fair wages may be paid to labor. In the tariff hearings, during the framing of the Payne-Aldrich bill, possibly more testimony was taken before the committee than in the discussion of any other of our tariff laws. With the chairman, Mr. Payne, there seemed to be one paramount issue—the wages paid to labor. Other costs were as nothing, so long as good wages were paid. Yet the reasons given by those seeking higher protection were not only diverse but opposing. For instance, the tanners wanted higher duties on leather or free tanning extracts, in order to be able to pay high wages without raising prices; while a man who was manufacturing tanning extract from chestnut timber wanted more protection against foreign "pauper labor," giving as his good reason that chestnut stumpage had advanced over 500 per cent in the past ten years, wiping out all his profits. A man from Florida wanted protection on "sea island" cotton, and gave as his principal reason the fact that the price of

land had advanced 2,500 per cent in the past twenty years. He also intimated that it was not really worth as much as formerly, because it required a greater outlay for fertilizer in order to raise the same crops.

But there were some really honest men before the committee, although they were turned down. One from Georgia said that he did not believe much in protection, but if they were going to pass it around he wanted some of it; and there is the case of the honest man from Pennsylvania, previously mentioned, who wanted a little "unearned increment" on some low-grade iron-ore he had been holding for fifty years. Not all of these got what they asked.

Now, on the principle of protection to capital and labor, if one article has a capital and labor cost of 10 per cent and 90 per cent of land value cost, while another article has 90 per cent of capital and labor cost, with only 10 per cent land value cost, what should be the rates of duty on each article in order to give capital and labor the same relative protection in the two cases? With capital and labor costs at 90 per cent, a duty of 25 per cent might be a fair protection, but with land value cost at 90 per cent it would require a duty of 250 per cent to give them the same relative protection.

If the mines of Great Britain had been capitalized two hundred years ago at one cent per ton and had continued to advance in price at a ratio that would give a fair margin on investment, what would be the rates of duty necessary on foreign coal and ore to protect British miners against the pauper labor engaged in mining American coal and ores valued at present royalties? The writer has not figured it, but "it all depends on how you figure it." Great Britain is now agitating the question of protection to her mining land values.

Mr. Felton, president of the Pennsylvania Steel Company, called the attention of the Ways and Means Committee to the effect of higher royalties on import duties.

He stated plainly that the higher cost of ore and coke at their tide-water plant on Chesapeake Bay had so raised their cost of production as to wipe out the margin of protection in tariff duties.

They had constructed a tide-water plant, the output of which they purposed to sell in the foreign market, and by improvements in capital expenditure had actually reduced labor costs in the face of higher nominal wages, only to have the land value cost of raw material rise against them so radically that instead of being able to sell abroad they needed more protection to enable them to hold the tide-water home market. While he did not express it in this way, his argument can mean nothing else.

But the real question to be considered here is our foreign "balance of trade." Our balance of trade with foreign countries carries more land value, or the fruits thereof, than does a returning tourist's trunk of dutiable goods.

Our foreign trade shows a balance of exports over imports now averaging over $500,000,000 per year. That we are selling abroad more than we are buying from abroad has been frequently mentioned as a favorable trade condition, and some of our politicians have asserted that the balance is due to us in gold. If this were true and we had need of the gold, it would be a favorable balance; but the reverse is true, since we are sending out gold in excess of what we are bringing in. The United Kingdom of Great Britain, on the other hand, is averaging an excess of imports over exports of over $800,000,000 per annum, and with an excess of gold imports. These are the two largest manufacturing countries of the world, one exporting both goods and gold in excess of imports, the other importing both goods and gold in excess of exports. Which has the more favorable trade balance? This again "all depends on how you figure it."

From 1790, when the government began keeping account of imports and exports, to 1849, when we began min-

ing gold in California, our imports exceeded exports by $755,306,231. This includes gold and silver. Before 1849 we were importing more specie than we were exporting, which certainly shows that the balance of trade was in our favor. Between 1849, when we began mining gold, and 1873, when silver was demonetized, and the panic of that year (not necessarily connected as events), our imports exceeded our exports by $441,565,489. During this period we exported more specie than was imported. The net result of our foreign trade up to this time was $1,196,720 excess of imports over exports.

It certainly cannot be that we had been carrying on an unprofitable foreign trade all these years. Up to that time our foreign trade had been mostly in the hands of our own people, and it is reasonable to say that $1,196,-871,720 was profit—minus what was paid by foreigners for our wild lands. It is unreasonable to assert that this net gain was a loss.

The date 1873 is not selected because of the demonetizing of silver in that year, but as marking the beginning of a change in our economic conditions. It was at this time that the increase of exports over imports began, and it was about this time that land value began to be felt as a cost in production. And, too, it was the beginning of those conditions that led to the struggle between capital and labor to decide which should lose what land value was gaining.

Up to that time we had looked upon the resources of the country much as a small boy looks upon a bunch of fire-crackers on the Fourth of July. If a man wanted some land—a township or a county—all that was necessary was to promise to dig a ditch or blaze a trail, asserting to be canals and highways, aid it was given him. It was only a trifle more difficult to get enough land for a good farm. We had land to give away, and Congress voted a land

grant to nearly everyone who had the assurance to ask for it. That is of the past.

Beginning with the "Mexican war land warrants"—issued for services and favors in the Mexican war—there began a systematic gathering in of lands. While the government price was $1.25 per acre, these warrants sold as low as 25 cents per acre; the standard price was about 40 cents per acre. These warrants seem to have given speculation a taste for land far below the government price, and opened the way for government and state appropriations, as bonus, for things to be done or supposed to have been done.*

While these speculative investments were a small item per acre on the land obtained, still, as the price was drawn from industry at the neglect of buying the produce, the effect has shown itself in an almost constant market surplus, resulting in periodical panics and in ever-increasing bonded indebtedness.

But it is foreign investments in these cheap-give-away-lands and the effect upon our export trade that we will consider, and not the speculation in itself. While these speculations may not have been profitable to the investors,

* While the writer believes the proof to be positive that all our panics have been the result of land speculation—investing the earnings of production in land, to the neglect of industry—still, to avoid unnecessary details, the investigation is confined as nearly as possible to the period of his personal observations and experience. This begins at the time when the census reports show the beginning of the effect of land value upon capital and labor in reducing the relative amount of the products which each could buy. Prior to 1874, the earnings coming of production were used in buying land to the neglect of the products, and, while this has continued, the greatest trouble now is the growth of land value cost in production. While improved machinery and methods have cheapened the cost of production and partly neutralized land buying, the costs of raw material have more than offset all that has been gained by the improvements. This rise in the price of raw material really began in the "seventies," while land speculation really began in the "thirties." It is not the speculation that is being considered, but the after-effect, and, in this, only the effect of what was purchased by foreigners with the profits accruing abroad instead of at home.

owing to the long time necessary to realize through sales on dividends, the effect would be the same in final results; and the results are the difference between what was received years ago and what is being sent out now as profit on investments. The matter turns not on the benefit which the government received from $1 paid for land sixty years ago, but on how many dollars have since gone out and how many must still go out in profits on that $1. Nor is it the right and the wrong that will be considered, but solely the economic effect.

The price on land bought by foreigners, and foreign interests in lands that were given away for the asking, and the price of the lobby, have greatly increased, creating a permanent fund for local investments. The foreign funds invested in this country are fully 90 per cent local development, being the difference between what was paid for wild lands and what those lands would bring at later sales or what their produce would bring after they were improved. These profits can be fairly measured by the balance of exports over imports. Beginning with 1874, our exports have exceeded our imports every year excepting 1887 and 1888. From 1874 to 1907, inclusive, our excess of exports over imports is $7,540,855,240 in goods. To show that this is not our profit on our foreign trade, as some say, and that we have not that much due from abroad, it is only necessary to add that, in addition to this amount of goods, we have sent out an excess of $468,595,966 in specie. This makes $8,109,451,206 that we have paid in profits on foreign land speculation since land value began to reduce wages to labor and profits on industrial capital.

In order to comprehend fully this immense sum it might be well to make some comparisons. In 1900 our total farm value, including improvements, was $16 614,-647,491. One-half of this value has been accumulated since. 1870. Thus our excess of exports over imports, since 1874, practically equals all the increases of farm

value since 1870, or equals the total farm value in 1870. In 1900 the total value of our farm live-stock was $3,175,-477,703, and the value of all our farm machinery was $749,775,907. Add the total value of live-stock to the total value of farm machinery, and the result is less than half our excess of exports over imports. Our total manufacturing capital in 1880, added to the total output of the product, would not equal this excess of exports over imports during those thirty-three years. This excess of exports over imports is three times the national debt in 1866—which is not yet paid—and is more than three times the total wages paid in manufacturing in 1905. In 1860 our total farm value, including improvements and buildings, with the total manufacturing capital added, was $7,654,-900,724, while our excess of exports over imports in thirty-three years was enough more to equal ten years' output of our gold mines. Since the financial epoch ending in the panic of 1907-1908 to 1912 inclusive—our exports and imports of gold and silver have fairly balanced; but of merchandise we have exported an excess in value over imports of $2,278,621,393, which makes another substantial payment on foreign investments in our land. This latter amount is one-third more than the total capitalization of the steel trust, and $35,000,000 more than the national debt in 1871. Adding this amount to the excess of exports over imports prior to 1907, we find the grand total of profits on foreign investments to be $10,388,072,599. Yet we complain of a few little trusts, while the unorganized land trust can swallow them all and open its maw for more.

While the balance of trade is an individual profit, it has nevertheless an effect upon a whole country, as the payment of any balance in basic money will disturb the home balance between produce and money. In this sense this great excess of exports over imports has been in our favor, as it has allowed us to pay the profits on the land

speculation of foreigners in goods instead of money. In the earlier days, the foreigner put up the price of the land and we did the rest. Land that cost him all the way from nothing to $1.25 per acre has advanced to prices varying from $10 to $5,000 per acre, according to location, minerals and timber. The difference between the price paid and the price of to-day in this speculation is wholly of local development, and foreign funds invested in local industries are only local funds of foreign ownership.

To illustrate this we will take an incident common to conditions sixty-five years ago. We will suppose that a man in Boston buys a quantity of Mexican war land warrants of soldiers from Massachusetts, who served in the Mexican war. These warrants were issued by the government as bounties, and were transferable. The holder could locate any quantity of land in any state where there was government land, according to the acreage of his warrants.

These local purchases of warrants carry no money into the state where the land is located; the money being scattered among the soldiers of Massachusetts is used locally. Our man of Boston locates a large tract of land in Michigan, where settlements are being made at that time. And, as he takes no money into Michigan, it must be evident that all increase in the value of this land must be of Michigan development, as not even a dollar was taken there as seed. The seed, or dollars, was sown in Massachusetts, but the crop must grow in Michigan and be taken to Massachusetts. Or, as land value is developed by industry in Michigan, the land will sell and create a fund that can be loaned or invested to further develop land value. It can now be said that Massachusetts capital is being loaned to develop Michigan industry, when, in fact, Michigan industry is being used to develop Massachusetts capital.

The principle involved in the ownership and development of land value is the same whether the owner is on

one side of the ocean and the land on the other, or the owner on one side of the Allegheny mountains and the land on the other. Local conditions must develop the value and the users of the land must pay it. If we had a line of customs-houses from Buffalo to Pittsburgh and along the Alleghenies and down the Potomac River and Chesapeake Bay, we could show a balance of trade—a balance between eastern land speculation and western production to pay the profits—that would make our foreign balance look like "thirty cents."

We have heard much about "eastern capital" being loaned in western industrial development. The real fact is that the East never had any capital to loan until the western lands developed it by increase in value. The money paid for these wild lands never went west. As the country in the earlier times was all east of the Alleghenies, any money paid for western lands was paid into the national treasury and relieved the East by so much of government taxes. New England, at that time, was the "free-trade" section of the country, and all the receipts for land sales relieved its people of custom duties; so that what they paid the government for western lands was really in lieu of taxes, therefore costing them nothing. As these lands began to be made valuable by settlements, the east began to have some capital to loan for western development. As the eastern speculator preceded or followed all western settlements, taking at least one-half the lands for speculation, it is evident that as land value advanced it tended to create a fund that could be loaned in the locality. Even the sale of the land on time created such funds.

It is self-evident, when we give it thought, that every community develops its capital and its own land value increase, even though the ownership of what is developed is not local, and this latter fact may give an appearance of needing outside assistance. In reality, the outside assistance is only outside permission. California furnished

the funds for the Pacific roads, and the Middle West has paid for all its improvements and great profits on speculation, making the East the "home of money."

The nucleus of actual capital of a new country is an insignificant amount, consisting of a little cheap machinery and small stocks of goods belonging to the actual settlers. What comes later is in exchange for local produce going out and not the investment of outside loans. This applies to the earlier conditions more than to present ones, where development has been retarded by land-owners and capital sent in for a "rush" development—making for quick profits and depletion.

From this view-point of the origin of loanable funds we will proceed to their effect upon foreign trade. It is the profits on foreign land speculation, and interest on loans made from the funds generated by these profits, that upset trade balances between foreign countries. They are something that must be paid; if payment is made in money it unbalances the money market, and if paid in goods it unbalances the exchange of products.

We frequently say "England" when referring to English products or to English investments. This is much as it is with the "heathen Chinee," who fails to distinguish between the Christian missionary and the Christian liquor-dealer. They are all Christian to him, and all look alike. In fact, we are dealing with *productive* England on the one hand and with *investing* England on the other. With *productive* England we exchange goods, while we owe *investing* England profits on land speculation which would break us all up if we could not pay in goods. This necessitates more goods going to England than we can afford to buy of England. In this we are favored by natural conditions, as *productive* England must look to us for certain raw material and food products. This puts a strain upon our entire foreign trade, as we must sell abroad more than we can buy of foreign goods or lose our basic money. This

extra amount goes to *investing* England, thus checking the sale of *productive* England's goods, which, othewrse, we could afford to buy in quantities sufficient to balance our exports. What we must export in excess of imports not only makes hard feeling abroad, but checks foreign production without benefit to us.

At first thought it might seem that what England, as a whole, gains in profits from foreign land value would be of benefit to all; as, being a net gain, it is instrumental in bringing raw material from all parts of the world to the factories of England. But on second thought it will be evident that it is *investing* England that is receiving these profits on land values, while *productive* England must accept what is brought in on these profits, regardless of the fact that it would be much better if they could be paid in finished products. What *investing* England receives from foreign countries free of labor or monetary costs reduces the market in foreign countries for the products of *productive* England, thus placing England, as a whole, in a condition where necessity compels her to consume more goods than she produces and sells. As English commerce first opened undeveloped markets in virgin territory, it was *investing* England that obtained titles to the best and most productive lands in the unappreciative countries. As these lands cost practically nothing, all that comes from them bears the same cost mark so far as the owners are concerned; but *productive* England must pay for this raw material. It might be said that no difference will result whether *productive* England pays *investing* England for this raw material or pays the natives who have produced it. But the difference lies herein: England's need of raw material is limited, and when the natives living in these English-owned lands have supplied these needs they have only succeeded in paying their rents and the profits on English investments. Germany also has need of raw materials, and, not

owning the lands, must pay for these materials with finished products. The natives having supplied England, in paying rents and profits, are still unsupplied with goods, and now supply Germany with raw material in exchange for goods. Thus *investing* England has destroyed the market that *productive* England has built up, destroyed it by compelling the natives to produce twice as much as formerly; one-half going to England in payment of profits on land, the other half going to Germany in exchange for goods; they have made a market for Germany.*

The very conditions that would seem to place the trade in the hands of England, and keep it there, are driving it away. The more complete the ownership and control of foreign resources by *investing* England, the greater the necessity for the natives to place their trade elsewhere. Commerce, like forces in nature, follows the line of least resistance. Therefore the natives, in trading with non-land owners, exchange products for products; but trading with those who can collect on the land value, they exchange products for privilege. They very naturally prefer the deal that brings the goods.

In earlier times the manufacturers of England exchanged their products for raw material from the cheapest lands in the world. This gave England the lowest-priced material for her factories, and the lowest priced food for her workmen, thus enabling her to produce at a minimum of cost and sell in unrestricted markets. Her own profits on foreign investments have raised the costs of raw material against her by raising land value, while the higher land value cost to the natives have reduced their ability to buy goods, thus killing by speculation the profits of production.

With Germany it is different. England, France, and Holland each have large investments in foreign resources.

* While this is not literally true, it is true in principle.

The profits on these resources must necessarily inflate their imports and shorten production for export. In this respect Germany has an advantage by having her commerce more free from speculation, and less inflated in invoices. Germany, in her efforts to gain foreign trade, has endeavored to eliminate land value costs of production by limiting royalties and freights, and by taxing privileges to pay bounties on exports, as well as by a system of rentals which reduces living expenses. This is enabling her to reach out, untrammeled, to any market of the world, meeting any prices, and, at the same time, bettering the condition of her workers.

While this is only the rough shell of the cocoanut, within it the milk and the meat lies. It reveals the principle involved when the artificial cost of land-value profits enters into foreign commerce, to be paid by foreign consumers.

The exports of the United States must exceed the imports by the margins made by foreigners in local land speculation. Nor is it necessary that this speculation be profitable. It is only necessary that the margin be larger than what originally came in as investment, this latter being the difference that inflates our exports.

In these dealings two distinct interests are involved—speculative investment and productive increase. Productive increase makes speculative investment profitable, as speculative investment draws its profits from productive increase. As these profits must be a matter of export, the foreign investor is brought into direct competition with the foreign producer in his home market. If the profits are entered in the form of finished goods, the output of the local (foreign) manufacturer is reduced; if they are entered in the form of raw material, the local (foreign) output is reduced by what might have been exchanged for raw material abroad. If these foreign profits are to be paid in money, local conditions in each

country are unbalanced by the changing of the relative balance between produce and money. This brings about the necessity of protecting the volume of money by rates of duties to check the importation of goods that will be paid for in money, when imports are not balanced by exports. Thus, as between England and the United States, the profits on English investments require that England as a whole must buy and consume more than she produces and sells, while the United States must produce and sell more than they buy and consume. This compels the United States, in order to maintain a balance in accounts (not goods), to excise English finished products and furnish England with raw material, which, otherwise, we could finish and export at a profit. The balance being due to England, it is necessary that England be given her choice of goods, and her choice is naturally that which can be utilized in giving employment and creating a wage fund at home.

But here we again have investing England and productive England. We pay the profits to investing England and exchange goods with productive England. In this, what is due to investing England prevents us from giving productive England a fair deal in the exchange of goods.

Since price rather than market scarcity attracts imports, it must be conclusive that any force or condition which will raise prices will also invite imports. The proclaimed theory of our policy of tariff protection is to insure a profit to capital and make the highest wages possible; therefore, the protection is to the price, leaving it to the price to pay the higher wages and the safe margin to productive capital. But, as price must cover costs, if the royalty in the raw material rises and absorbs the margin to capital and threatens the scale of wages, then the price, to cover increasing royalty costs, must rise, even though it be forced above the margin of tariff pro-

tection, thus inviting imports. The margin of protection being the difference between the actual capital and labor cost and the highest price which the tariff will permit without inviting imports, it must be conclusive that, if raw material royalties rise and crowd prices above the margin of tariff protection, higher duties will be necessary to maintain the margin of protection. This brings us to a logical question: Does tariff protection protect capital and labor against lower-priced foreign products, or does it protect land value royalties against lower foreign royalties? And another question, more pertinent than logical: Does our capital and labor need protection against foreign "pauper" labor, or against a condition which pauperizes labor?

The real burden of our foreign trade is to protect our basic money and pay the adverse margin resulting from rising land value inuring to foreign ownership. This is not the mere margin of commercial interest on money or capital which foreigners have loaned or invested in this country, but a land value development of several hundred per cent on the actual investment. It bears no relation to any benefit which any foreigner has ever in any way rendered to us as a people; but it represents rather the benefits which we as a people are rendering to foreigners who have invested in our natural resources. Nor does it necessarily mean a profit on these foreign investments in our wild lands, since many of these investments have lain dormant for over a half-century, and the present beneficiaries are the heirs and assignees of the original investor. Nor does it mean the commercial and economic interest on actual foreign capital which has been brought into the country and invested in our industries to assist in our development. The volume of such capital is relatively small, when compared with that volume of value which our own people and our own industry have given to foreign investments in our natural resources. These

"time" investments, awaiting the birth and growth and coming needs of an unborn generation to give to them a value, when they do show a profit on an investment of over a half-century of lying in wait will have increased over 6000 per cent. The real burden and the real embarrassment of our foreign trade is that it is encumbered with the unearned increment of foreign speculative margins which vary from 50 to 5000 per cent, and which have resulted from obstruction rather than from constructive assistance. And this burden and this embarrassment have been greatly increased by the profit-taking in the higher capitalization of raw-material royalties, which has so raised the royalty cost of our products as not only to raise prices above the margin of tariff protection and invite imports, but also to increase the price of what we must sell abroad if we would protect our basic money, since it is gold, not goods, that is due.

Price being the attraction to imports, the higher the royalty costs the higher must be the price and the lower the margin of tariff protection; the higher prices increase the difficulty of selling abroad, and also increase the preference in the foreign market for gold instead of goods. This compels us to resort to the injustice of selling at lower prices in the foreign market than at home. This is injustice not only to the home consumer, but also to the foreign manufacturer who is already injured by what enters his home market free of local costs, and which bears as a cost mark only the margin of profit on a foreign speculation in which he has no share.

Still another condition is confronting us in our foreign trade balance. Where formerly the bulk of our exports has been of farm produce, we are now requiring nearly the full produce of our farms to feed our greater and still increasing population. This has forced the crowded foreign countries to seek and find an increasing supply of fruits and vegetables in the low-priced lands of

the tropics, and an increasing supply of grain in the vast untilled plains bordering on the frigid zone. With the falling off of our food exports and with the rise of royalty costs on our raw material, we are compelling the foreign demand to turn elsewhere and develop other sources of supply. This unnatural inflation in the price of what we must sell abroad in order to settle an unnatural inflation in our adverse trade balance must soon have an effect on our exports, and force us, in accordance with all customs and contracts, to pay in gold what is due in gold.

CHAPTER VI.

MONEY AND PANICS.

Before considering the cause of panics, first free the mind of the idea—all too common—that they are planned and brought about by some man or set of men who profit largely by business depressions and failures. That some do profit by financial panics is evident, but those men whose business interests are so great in their ramifications, and so far-reaching in their nature as to affect general conditions, have more to lose by panics than they can possibly gain by the failure of others. That some do gain by panics is largely accidental and not by design. But panics are not planned out, inasmuch as those interests which might combine to cause a panic have more to lose by property depreciation and loss of interest and rental income than can possibly be gained by sequestration, foreclosures and gain in purchasing power of their money. The control of money is obtained, not through the medium of loans, but by ownership and control of basic properties which command and compel incomes in money, and panics reduce these incomes and depreciate the properties more than can be gained by cornering all the money and what it would buy at the reduced prices. While the very men who are charged with planning and producing panics are the greatest losers by panics, the basic nature of their property leaves them in the best condition to recover after the panic has passed.

Panics do not come to the denizens of slums and alleys. Such are immune to panics. Nor do panics first come to the wage earners. They are employed and receiving their

usual pay envelopes, with no variations other than usual labor agitations. Nor yet do panics first come to the manufacturers, nor to the merchants, nor the railroads. The manufacturer is buying his supplies, making out his pay roll and shipping his products as usual. The merchant is ordering his usual stock, bargaining for lower and paying higher prices, while he is extending credit to his well-known customers and trying to gain on the delinquents. The railroads are threatening increased rates and charging the usual demurrage on cars before being placed for unloading, while shippers are doing their usual amount of kicking.

There may be more than the usual complaint of overproduction, or there may be more than the usual demand for labor to get out rush orders, but the panic comes with little or no warning in the House of Money. The volume of money which was large enough yesterday to do its part in building and sustaining an increasing volume of business, and large enough to fill all pay envelopes and offer itself in loans and in new developments, seems today to break with a crash, and tomorrow—with half the business being done—there is a shortage in the volume of money. The panic seems to be in money and of money; its force increases with the demand for money and becomes still worse with the failure to get money.

The "money question?"—No, not that. If one could say something about money without disturbing the question, or could analyze the question without referring to money, some understanding might be reached. But, as money will not adjust itself to the question and as the question has never been adjusted to money, any reference to the compound is liable to run into prejudice engendered by bitter political strife.

Money will not conform to any analysis ever given of it. It stands both for and opposed to everything else in commerce. The nearest definition ever given to it is "a

medium of exchange." But it is more than that. It is not a measure of value, but rather a measure of price; since it does not always measure value the same, but does always express price. It is not a store of value, but rather a store of privilege. Since a unit of value can not be stored in two places at one and the same time, and since money renders no actual value except in the parting from it for what will render value, it is a store of privilege of universal recognition to its full face value. It is not a standard of value, since values can not be standardized.

Money is functional, not fundamental. While it is nothing within itself, it is representative of everything else that can have a value and be covered with a price. Any price (not sacrifice) can be expressed in terms of money; and any holding-owner of money possesses the privilege in store of obtaining of anything which may be offered for sale in amount equal to what the face value of his money will measure of the selling price.

Money does not transfer values, as some have asserted, but it does transfer the privilege of obtaining and owning values. The owner of money is the possessor of privilege which came to him with the money and leaves him when he parts from the money. Therefore, not to antagonize fixed ideas or set new marks, but to come to a better understanding, we will define money as A Medium of Privilege and A Measure of Price.

The object of this definition is to enable us to consider the cause and the workings of a panic entirely independent of the money question. To do this, it is only necessary to substitute largely the word privilege in the places where the word money is ordinarily used in discussing such subjects. The only difficulty to be encountered in this substitution is that privilege—real privilege—is greater and more far-reaching than is money, since privilege can create, command and retire money at will. Therefore, we

will make a distinction and say fundamental and functional privilege. Money can not create privilege, and—as a medium of privilege—it can only transfer such privilege as already exists. Privilege can set the price, while money can only measure the price and pay in proportion to the amount of privilege with which it is endowed or indued by privilege.

It is much the same as with the two men on the island: Jack was possessed of a privilege in the form of recognized money; J. Tom was possessed of a privilege in the recognized ownership of the island. These privileges being duly recognized became rights—not human rights as recognized by savages, but property rights as recognized and enforced by the legalized customs of organized society in higher civilizations. As civilized men, recognizing the privileges legalized by organized society in the higher civilizations, Jack was possessed of the privilege of paying for what would supply his needs, while J. Tom was possessed with the privilege of setting the price and making the collection. The privilege possessed by J. Tom was fundamental; the privilege possessed by Jack was functional; for the one was unlimited in its increase and ability to set price, while the other was limited in its increase and ability to measure and pay the price. Therefore, the fundamental privilege which controlled and limited the supply could also control and limit the functional privilege which could only be a medium of privilege and measure the price of the supply. The $1,000,000 of privilege medium, which Jack accepted as his share in the division of property rights, conveyed the recognized privilege to obtain food. After the division, with the inurement of the island to J. Tom as a privilege right, to obtain food became a privilege; so the $1,000,000 in gold was the medium which conveyed Jack's privilege to J. Tom in exchange for food. The fundamental privilege furnished the supply, set the price and remained intact and unchanged in ownership, while

the functional privilege measured the price and changed its ownership. Fundamental privilege then fixed the price of labor at $1,000,000 per day in gold and the price of food at $1,000,000 for three meals, and functional privilege measured the price and shifted alternately, conveying to Jack the privileged right to three meals upon completion of his effort in production and delivering nine meals; then it reverted to J. Tom in payment for the three meals.

Functional privilege, being but an emanation from fundamental privilege, must be reciprocal to give it use, and must be refluent or tend to refluency to give it security. That is, the functional privilege of exchange must emanate or issue from security, be respected by the power of that security and ultimately return and be liquidated by the security which gave it origin. This is as true of the privilege value of gold coin as a purchasing medium as it is true of the privilege value of secured notes in the same use.

For instance, the gold miner, on the recognized value of gold, is privileged by legalized customs to transmute his produce into a circulating medium of purchasing power. All fundamental privileges recognize this special privilege of the miner by accepting the functional privilege of the gold coin in exchange for any temporary privilege which may emanate from the foundation of privileges—or, rather, natural resources. Now, as gold mining is a process of production which must be fed and supplied by other forms of production, it follows that the miner must pay for his supplies with the functional privilege of his product. From this exchange for finished products, it passes on from retailer to wholesaler and to ultimate manufacturer, thence to the manufacturers of partly-finished products and to the producers of raw material—where it is ultimately absorbed as partial payment on royalty costs. In this last exchange, the conditions and nature of what enters into the exchange are such as to

resolve it into an exchange of privilege for privilege, wherein the superior power of fundamental privilege absorbs the functional privilege of the gold coin by receiving it in exchange for a special privilege which has emanated from the fundamental—or natural resource.

While gold is our basic privilege, as a medium of purchasing power it is not fundamental but, rather, organic, —since, as a product, it has been separated from the fundamental base and becomes still further removed by its special functional privilege of being our medium of purchasing power. It thus becomes an organic privilege, second only to fundamental privilege. And as fundamental privilege consists solely in the legalized right to set a price and make collection where there is no human cost, it naturally follows that the organic nature of the functional privilege of gold coin renders it the only element recognized as a fit payment for fundamental privilege. And, there being no human cost in fundamental privilege (price on royalties), there is no commercial need that the gold coin so received ever again be paid out to liquidate costs. Being an exchange in final balance of privilege for privilege, the organic privilege is absorbed by the fundamental privilege—from which it really emanated. It becomes much as—

"—Such a tide as moving seems asleep,
Too full for sound or foam,
When that which drew from out the boundless deep
Turns again home."

Since royalty on raw materials has no human cost, it has no expense which requires feeding; therefore, fundamental privilege can afford to keep all that it obtains; and, as depletion follows the prying loose of these principles in Nature, the gold coin—with its functional privilege—becomes substituted, in a sense, to fill the vacuity in the estate of fundamental privilege caused by such depletion. That is, the hole in the estate of fundamental privilege, caused

by depleting use of raw materials, is filled by gold coin value to the extent of the royalty prices. Thus the organic, functional privilege of gold coin becomes owned by and intermixed with fundamental privilege in the capitalized principal of the land value estate.

When the fundamental privilege of owning the natural resource and of setting the price—as with J. Tom—had absorbed the functional privilege of the gold coin in paying the price, there was evidence of a debtor condition which compelled Jack to produce more than could be consumed. He was compelled to produce all that the market would consume and an additional amount equal to the privilege of producing. This brought on a panic in six days, during the highest of prosperity. Had there been an elasticity of credit consumption by the issue of municipal and industrial bonds, had there been an outlet by defaulted payments and bankruptcy relief, the panic might have been postponed, but the seed was sown and the crop had to be gathered. Yet, even without credit, the panic seemed to be either a lack of money or the lack of elasticity in the money.

But, to end this jumble and state the case more plainly, regardless of the prejudice of those who may believe money to be sacred or a device of the devil, we will call everything money—even to bank drafts; or we can limit it to gold coin;—the result is the same.

In short, a panic is an acute demand for money, superinduced by a break in credits resulting from an overdue debtor condition, caused by consuming on credit necessitated by the shortage in purchasing power with which to pay for products and to pay the additional cost of land values. There being no funds generated by productive increase and human costs in excess of the price of the output of productive force, and as the demand for money must equal the selling price of the total product and also the price of all land sales, a shortage must naturally fol-

low. And as this shortage is funded into secured money obligations which must fall due with no possible means of making payments, it naturally must follow that the ever-increasing volume of this shortage will inevitably reach a condition wherein renewel is financially unsafe and collections must be forced;—then comes the panic.

A panic is an explosion in finance, not in productive business; but the resulting concussion will disturb and may disrupt productive business. Whether the explosion is by spontaneous combustion or by accidental ignition, the requisite conditions and material for the explosion are not of instantaneous and accidental amalagamtion. Even coincidence requires pre-existent incidentals. Fruit does not fall naturally before fully ripened; and, as the time of a panic is always at full tide in production and commerce, it can not be for need of productive force or for lack in volume of values, but the result of a ripened condition of long growth. As fruit must fall at full maturity, so must a panic come at the full maturity of an accumulation of over-due deferred payments. The necessity of employment at interest for idle funds, the fallibility of human judgment in estimating securities, the tendency of promoters toward misrepresentation and of fund holders toward speculation, together with general economic changes and calamitous exigencies,—these are all causes which are constantly weakening the securities of loans and of deferred payments of long standing.

The narrowness of margins on strictly high-class securities, and their scarcity compared with the funds seeking investment in securities, forms a constant inducement toward speculation by those holding funds in trust. The magnificence of the prospect, the trend of population in some one direction, the completion of a railroad and of the foundations of factories,—all are so alluring in possibility and so promising of large margins that trust funds are poured in at a time when promoters are taking

profits, and the glittering prospect is postponed until after business again revives. Funds generated in the credit period of productive increase—generated by the increase and needed in final sales—are drawn away from the products which gave them being, and are used in speculative promotion to an extent which renders realization on all such investments an impossibility, even though each has merit based upon natural resources of high future value. Since time is necessary to the development of actual values, and since trust funds must bear interest and have absolute security, many sound investments may fail from lack of time necessary in maturing and from the interest cost of feeding the investment, even though the depositor of the funds does not become uneasy and demand a withdrawal at an inopportune time.

The real beginning—the fundamental causes—of a panic may be laid in the numerous impossible contracts entered into on the revival of business following a receding panic. They are "impossible contracts" because they call for and promise and attempt to secure impossible payments in impossible money at an impossible time far removed from the possibilities and conditions prevailing and balancing at the time of entering into the contract. These contracts are rendered impossible by being made payable in money where no money was received; payable in money by people who have no way of creating money and payable to people who will ultimately accept in payment nothing but money, since they have no possible need for the products which must be produced with the intent of exchanging for the money. The simple fact that they who enter into these contracts to pay this money can only obtain money from the sale of their products, and that they who are to receive the money have no need for the product, is the fact of a contract condition wherein the demand for products is less than the actual demand for money which can be obtained only from the sale of pro-

ducts. The simple fact that their productive force—as productive force, and as a whole, including commerce—can not obtain of money in excess of what they can sell of goods, limits their use of money—use without deficit—to the production and sale of goods.

Therefore, since price must cover cost, there must be goods sold in volume of value equal to all costs covered in the price of the goods,—or a deficit must result; so, if any part of the cost of production lies in deferred payments calling for money delivery in excess of what those to whom it is due will buy and consume of products, then a demand for money must exist in excess of all money which can be obtained from the sale of products. This condition of money demand bears no relation to the volume of money in circulation, but is caused by a cost in production which can not be paid by a portion of the product. It is a condition which results in an unbalanced market wherein productive force is compelled to produce more in order to pay certain costs in production than the volume of products which can be sold for that which can make the payment. This market condition is called "overproduction."

A panic is a demand for money which is really supervenient and extraneous to the demand for money in commercial use; a demand so extraneous from commercial use as really to cause a withdrawal of money from commercial use. A panic is an acute demand for money by the custodians of trust funds whose environed duties compel a discrimination in favor of depositors and regardless of the value of the security which stands pledged for money payment. Money being the contract substance of the deferred payment, and the payment falling due at a time far removed from the commercial conditions and relations which necessitated the unbalanced dealings which call for a future payment, and as productive force and commerce do not create money, the payment when due must be entirely foreign to the business being done when payment must be made.

A contract between two or more parties, the terms of which are a pledge and an agreement to pay a sum of money at some future time, is a matter not wholly private in its nature. If the debtor party should contract and pledge security for the delivery at some future time of a given quantity and value of his own products, then it would be a private matter; but, when he contracts to deliver that which he does not produce and which is not produced by any party with whom he has exchange dealings, then it becomes more than a private matter, since he must unload more upon the market than he takes of products from the market,—thus unbalancing market conditions in order to balance a deferred private deficit. The simple fact that, by mutual agreement, the deferred payment—or borrowed assistance—is of long standing must be evidence that what falls due does not fall due to active business, but falls due to a funded estate which must hold the money for loans instead of using it for buying products. Thus, while active business is called upon in the usual business way to assume and absorb a quantity of desirable products and to make payment from the volume of circulating money, the money so paid must—to satisfy the term of an old contract covering an old private deficit—be drawn from circulation and placed where it can circulate only on "call" loans or be re-loaned on long time security,—provided you have the security.

It is not one case of this nature, it is the multiplicity of such cases that results in a panic. Nor it is the drawing of money from circulation to make these deferred payments which brings the panic, but rather the business strain of a multiplicity of deficits all trying to sell and obtain money at the same time. The strain caused by maturing and overdue deficits all falls upon credits because they are all payable in money and due ultimately to funded estates which have no need for the products which must be sold to obtain money. Therefore, while productive force

can pay its obligation only by creating a product, the obligations are payable not in products but in money which is not a product,—thus throwing the strain of a money demand upon credits which must make good or break, and the break is the panic.

But the break in credits does not come to the open market of commerce, nor to the owners of the funded estates. Productive force has its capital intact and its surplus products as assets, while the owners of the funded estates have no immediate use for the money. But the break comes in the hands of the custodians of the funds—the banks and the trust companies—for they are responsible for the credits. The panic is theirs, since as intermediaries they are agents of both creditors and debtors.

And it may be as well right here to correct the very common error in the minds of many, that banks are the owners of money. They are the custodians of money and of funds on a commission basis, but they are no more the source of the money supply than is a department store the source of supply of the goods which it sells. In fact, with all of its hoarded money, the bank in a sense is the weakest of all business institutions, for it is the only business institution which can be forced into liquidation when it is entirely solvent. The reason for this condition of weakness is that, to be profitable, the bank must accept deposits and make loans, and its entire capital and surplus stands as a pledge that it will pay out on short notice all its money deposits while its loans are outstanding on time. And the capital of a bank may largely consist of the title to the building in which it makes its home, but which—while valuable as a security—can not be drawn upon to make immedite payment to depositors. The Treasury Report on Banking and Currency, for September, 1911, gives the capital and surplus of national banks as being, in round number, $1,688,000,000. Deposits are given as being $6,600,000,000 and loans and iscounts were $5,600,000,000.

This is not half the real total banking of the country, since national, state, savings and private banks and trust compauies have a combined capital and surplus of $3,500,000,000 and deposits of $16,000,000,000.

But our subejct matter is deficits and panics, and not banking capital with loans and deposits, although there is a relation between the two—since the panic always comes to the bank and it is the enormous responsibility of the bank that is exposed to the panic. With $3,500,000,000 of capital and surplus and with $16,000,000,000 of responsibility—responsibility of balancing a nation's commerce and filling pay envelopes—it must be evident that an accumulation of overdue deferred payments will rest as uneasily on a bank's books as will sweet milk and cucumbers on a man's stomach. No matter what the value of the securities or the prominence of the underwriter, any paper promising money payment must lose a degree of standing if renewal is necessary where payment is expected. The same conditions which compel long-time money contracts and deferred payments do not abate, but rather increase, with the increase of products which are intended to be sold for money with which to make the payments. The growing accumulation of deferred payments results eventually in banking dyspepsia; and an acute attack of banking indigestion is a panic.

For illustration: A, B, C and D have, by the legalized customs of organized society, become possessed of recognized titles to the natural resources of the country. Whether they have obtained these titles by government grants in consideration for something they have done or promised to do, is immaterial so long as the title is recognized. That these titles do not represent a moneyed cost is evident, for these parties had no money for such investments at the time the titles were granted; but they did have enough income to enable them to live without selling or using the properties. As these properties had practically no selling

value at the time the grants and titles were obtained, and as the acquiring owners had their living from some other source, it is evident that these properties bore no relation to the productive and commercial business of the country at that time, and that all prospective value must be of prospective estates, awaiting the increase of population and the development of industry to give them value.

Now, all the rest of the alphabet—from E down—represents the productive force of the country, which is developing the resources and creating values as population increases. But we will set X aside as the intermediary of business exchange and to represent the unknown quantity of banking. As the industrial force of the alphabet develops an industrial increase, and as population continues to increase, it is only a matter of time and development until the smaller and more accessible stores of natural resources are so nearly exhausted that a demand falls upon the larger resources which have been acquired by A, B, C and D—who are now becoming extremely wealthy, not by their own products, but through the increasing value of their landed estates. The industrial condition now becomes such that where the natural resources were formerly practically free they now command a price which must be added to the cost of production and be covered in the selling price of the product. Where Nature was formerly free we now find it covered by legalized titles and converted into private estates. And, in the cost necessary to pay this new price, we find the material for a panic.

In the natural course of industrial events, the increasing demands of a larger population must require a larger supply of land space for various purposes and a larger supply of raw materials for industrial development; and, the only available supply having been absorbed into private estates, a price is asked and a contract entered into to pay the price in money. Now, as productive force in the evolution of its output must span a credit period, by start-

ing its increase with credit assets, it is always in need of funds to assist in carrying the growing costs until the ultimate product reaches realization in ultimate exchange sale.

This evolutionary period of floating in transition being a natural credit period, any added cost at the beginning of this period would be almost prohibitive if payment were forced at this time; but, as the financial condition of the owners of these natural resources was such that it enabled them to withhold the resources from use, it will now enable them to convert the price into a loanable fund to be paid at the ultimate completion and sale of the products. As this added cost to production does not demand immediate payment, it forms no barrier to the evolutionary process of generating the product; and, by being converted into a fund, it even takes on the semblance of assistance, since it appears as a loan to productive force and gives the infant product a higher price as a credit asset in the primary and secondary stages of evolutionary development. Thus we have the paradoxical condition of a cost, which demands payment, being converted into a fund which seems to meet the demand and provide for the payment. But the final reckoning comes in settlement at the ultimate sale of the product.

A, B, C and D, now having recognized titles to the resources of Nature, are possessed of the fundamental privilege of setting the price and making collections as conditions will permit. Whether they join in forming a trust or act as individuals in their separate interests, the privilege of the price is theirs and the privilege of withholding from use is theirs. The simple fact, that they have held for years without use, is sufficient evidence that they have incomes from other sources sufficient for usual needs. To be able to own and control the resources of Nature places them in the position of Divine Providence, and they feel the importance of the part. Their price is

a cost which the rest of the alphabet must pay, although it may be funded and postponed to an indefinite date. X becomes the custodian of the funds and assumes a large degree of responsibility.

Capital—the tools of production—can provide for all costs of production, but royalty costs of raw material are costs *to* production and not costs *of* production; therefore, royalty costs must be funded and borrowed to float their own costs until final exchange sales. The very nature of obtaining title to and of holding these landed properties until a growing condition causes a demand for what they contain, makes of them landed estates, while to sell a part of their acreage or a part of their contents of raw material is to deplete the estate, unless the price obtained from the sale is funded and added to the estate.

Therefore, when the productive force of the alphabet draws upon the landed estates of A, B, C and D, for their raw material, they meet with no more embarrassment—except interest on the funds—than they would if the raw material were free. But, as the royalty cost must be covered in the selling price, and as the funded cost is a part of an estate, it must be evident that—while this funded royalty cost can accompany and support the product through the credit period of floating in transition—it can not enter the market in ultimate exchange buying—excepting in credit consumption by bond issues.

Thus we find a force accompanying production which compels a debtor condition and deferred payments, even when it finds an outlet in bond and mortgage security. While this force which compels added costs to production (by higher priced raw materials and higher rentals to wage earners) in no way retards the earlier or primary stages of production, yet—in the ultimate object of production, in the final sales—it gives no assistance in buying for consumption and relieving the market of products without leaving a deficit in payments. Being cost, it must be

covered in the selling price; and, as productive force has no way whatever of paying costs other than from receipts from the sale of products, it must naturally follow that increasing costs calls for a corresponding increase of products which must be sold in order to pay the increased costs. And as these increased costs—which are swelling the selling price—are of capitalized and funded estates, it must be evident that it would be depletion to these estates if their portion of the product, as measured by their portion of costs in the product, should be purchased by them and consumed.

And this brings us to another condition of the industrial situation which, being oppressive, may well be called a diseased condition. It not only produces dyspepsia and acute indigestion in banking by causing deficits and deferred payments, but among manufacturers there is a new disease which for lack of scientific knowledge may be termed *Necessarius Industrialis Elephantinus* — a necessity for factory expansion. This disease compels the enlargement of a complete and well founded manufacturing plant in order that it may have a larger product from which to pay the higher costs of production. A plant which has been developed out of the profits on its output finds itself in a position where it seems necessary to sell stock and issue bonds for expansion—to reduce "overhead" expenses by an increased output that will enable it to meet, with less loss, the "underground" expenses of higher royalties on raw material.

Since manufacturers can make final payments on all costs only with the funds which they receive from the sale of their products, it follows naturally that any increase in the costs of production must call for an increase of products on which other costs may be minimized and for which a larger fund may be obtained for use in final cost payments. This not only compels expansion of factory units in order to maintain trade and profits, but it compels

crowding the market with products in excess of any increased market demand for products, thus increasing selling difficulties and selling costs. The increase in royalty costs of raw materials, by compelling an increase of finished products to meet the higher costs, tends to induce credit consumption and deferred payments with correspondingly increasing strain on bank credits. But the funding of these royalty costs supplies the funds necessary for long-time deferred payments, where satisfactory security can be given. Thus the ever increasing volume of industrial and municipal bonds, together with building loans, furnishes an outlet for the increase in production with payments made from borrowed funds—funds generated by land value and royalty costs.

But all contracts, all bonds and mortgages, all orders for goods, all deferred payments, all deficits, and all interest, accrued and accruing, are made payable in money; and in last analysis of agreement they are all payable in gold coin. And yet, in the last analysis of commercial exchange—buying and selling being but relative terms—to buy is to sell and to sell is to buy— there is real demand for money only where exchange fails to balance. The real demand for money, the acute demand, the demand which results in banking dyspepsia, is an unbalanced trade condition—usually between commercial sections of the country or between different countries—which resists all efforts to realize on either credits or security. Banks and trust companies being custodians of funds, and necessarily becoming responsible in a large measure for the funds entrusted to their care, are more sensitive to trade balances than is mercantile and manufacturing capital,—since merchants and manufacturers are dealing in their own capital and with present business conditions, while in handling trust funds, banks and trust companies must deal to a certain extent with unknown future conditions. A few years of poor crops, a "hold up" in rail-

road extension or a change of drift in population may postpone a certain development which gave more than fair prospect of large and quick returns. While the bank may hold security on half the natural wealth of a new state, yet—if development is delayed—the security becomes worthless as a bank asset or even as collateral, since with the bank it becomes more a matter of realization than a matter of actual values.

For instance, a man entered into a contract with a certain state to construct about fifty miles of "state roads" through a part of its unsettled territory. The consideration of payment was one section of "state swamp land" for each mile of road constructed. This man, whom we will call G, made arrangements with a national bank for funds, assigning his contract to the cashier—H—as security and giving ninety-day notes as money was drawn and renewals when notes fell due. But development in the value of these lands proved more backward than was anticipated, since their value was more in timber than for farm purposes, so the new highways did not attract settlers. G could not realize on his investment and the bank could not realize on the security; so when the panic of '73 struck the business of the country, H—to save the bank—assumed all responsibility and practically became a bankrupt by placing all of his property at the disposal of the bank, on condition that he retain his position and salary. H later made a settlement with G, by taking a large part of the land as payment; but for years he was unable to raise enough money to pay the small tax levy on his land. About 1885, a change came in the demand for timber and H paid up his back taxes, turned lumberman and, by the depletion of his natural resources, he funded their value and turned his funds into government bonds and quadrupled the capital of the bank which he came so near wrecking. Time proved the correctness of his judgment concerning the value of the security; but the principle involved in the

nature of the loan of the bank funds—and of thousands of other such loans at the same time—resulted in an unbalanced trade condition with a deficit falling on banking with a strain on credits which money only could relieve.

The panic was the result of an unbalanced trade condition which called for money with which to pay overdue balances. The unbalanced trade condition was the result of withdrawing the purchasing power—which had been generated by productive force—from the support of the products in final sale and then investing, in land speculation, that which should have paid for the product. With productive force generating a purchasing power equal to the value of its products it becomes an easy matter, by consuming on credit, to segregate a portion of this purchasing power for speculative investment; but the profits on the speculation, being of advance price only, do not contain—nor generate—any material increase of products which can balance the trade condition and make payments. Therefore, a deficit is created.

This being an abstract proposition based on the physical law that something never comes out of nothing, it must be evident that a mere increase of price is not a material production of value. Therefore, if A withdraws $1,000 from the commercial market and invests in land speculation and later sells to B at 50 per cent profit, it is evident that—while there has been no material increase from which to draw profits—he can return the $1,000 to the market and retain a margin of $500. But, from what source did B obtain the $1,500? Purchasing power is not spontaneous; it is like the electric current which can produce light or power, but must return through some conductor to the source of its origin. A creates a deficit in the commercial balance by withdrawing $1,000 and balances again with a $500 margin, when B creates a deficit of $1,500 and, if B sells to C so as to double his money and balances his deficit, then C must create a deficit of $3,000. The deficit,

instead of being balanced, is only passed on and increased by each sale in the amount of the profit margin. But back in commercial product distribution there is a growing deficit which is straining credits,—and, as deficits once started are eternal and at interest, a break must come sooner or later.

"But," you may argue, "if any speculative prospect can show such margins of profit; it must have an actual value and be put to productive use and generate an increase of material value which can sell and pay all costs." In a way, this is true. But a future increase of products can not be applied to balance a past deficit resulting from an unbalanced exchange of past products. The deficit, being but unbalanced exchange, calls for money,—which was the terms of the contract; while to sell present or future products for money and apply the money to balance a past deficit is but to create another unbalanced condition for the present or future, since money obtained from the sale of products of the season must be applied in buying products of the same season to have exchange balance without deficit or surplus. One debtor condition being created to balance another debtor condition, not only does not make payments, but must increase by the margin of commercial interest on the deferred payments.

Equal unto the day is the purchasing power thereof. Purchasing power—being generated by productive increase—can not exceed in any season the selling price of the products of that season; therefore, if there is any available surplus in any one season, it will be a surplus of products which have failed in assimilation rather than a surplus of available money which can be applied in reducing a past deficit. A sinking fund can be provided only by unbalancing present exchange and by postponing some present payment and creating a present deficit. Under normal conditions, as time payments fall due there can be no reasonable excuse given why they should not be renewed

on the same security and with an increase of loans on the security developed by the use of the maturing loan. The loan having paid well for its use in assisting in developing values, has been profitable to the borrower; but developing values is not always a conversion into form for payments, since the real value of what is developed may lie in its ability to increase the costs of production with no actual benefits rendered, as with an advance in royalties and rentals. Even in the case of the state road land grants, the object—it will be observed—was to develop land value and create deferred payments rather than to assist in the payment of those already contracted. And, even when H realized on this object, it will be observed that —while he paid off a past deficit—his success was due to an increased cost to production by higher priced lumber, and that—while he had placed upon the market a large quantity of new products—he had not balancel the market by buying in like quantity of other products. He had converted the price value of a natural resource—which formed added costs to production—into loanable funds which productive force must borrow in order to carry the surplus products which this process of conversion had left on the market unbalanced.

The assertion that to convert the price of natural resources (land values) into loanable funds is but to create an unbalanced market or commercial condition, is based upon the deduction that all values depend upon *productive increase*;—not an increase in volume of production, but that increase which human cost applied to natural resources generated for the sustenance of life in its various degrees of comfort and luxury. This is the increase which constitutes the yearly yield of those necessities, comforts, conveniences and luxuries which can only be obtained by applying human costs (brain and muscle) to those resources which Nature has provided for the sustenance of all the children of Mother Earth. The deduction is that all actual

value is in and of this *increase,* and that whatsoever will not produce or assist in producing that which will give satisfaction to civilization can have no recognized value.

Therefore, all actual value being in the product and not in the process nor in the privilege to produce, it logically follows that to exchange and distribute products is the ultimate function in commerce, and—being the ultimate—the products constitute the purchasing power which pays for the products in exchange balance. And, therefore, the purchasing power just equaling the selling price of the product can only buy and pay for the product, thus leaving no available fund which can buy and pay for land—which is not a product.

The primary cause of deferred payments being the absolute necessity for access to natural resources by those who must produce in order to live, it becomes a compelling force which compels an excess of products over market demand equal to the debtor condition caused by the price of the opportunity to produce. As these forced debtor obligations fall due, and being renewed fall due again with others which have the same origin, there is a growing strain on commercial conditions which makes itself manifest in a demand for money; not in the needs of commerce, but a demand on commerce for money with which to pay deferred obligations contracted in first costs—royalties and purchases of land.

As this demand becomes more acute, the manufacturer feels the necessity of increasing his output so increased volume and sales may relieve him of his pressing obligations; the speculator feels that it is about time for him to realize on the increased value of his investment; the merchant feels the necessity of shortening orders for goods and of pressing collections. There comes a general effort to sell and realize; the very necessity for realization may cause a temporary business boom in the effort to produce and acquire something that will bring in the necessary

money. The feverish condition of shifting and swapping for that which men who are cornered may believe more available in relieving their stress, with an increasing demand for money loans and with rising margins on call loans, may really appear as active business instead of a seeking of shelter from a storm. This demand for money seems like a shortage in the volume of money, as does gasping for breath seem like a lack of air to one with weakened heart beats. There comes a demand for free sales and free loans.

In the expression of free sales and free loans, a distinction is made only between long time payments and cash sales, and between commercial accommodations in banking and money loans where the security only is considered. As banking is sensitive even to atmospheric changes in commerce, the purpose for which the loan is to be used must—at times—form the decision of whether it will be granted. As the demand for money becomes more pressing among delinquents, it is felt in the bank by requests for renewals on deferred payments and for free loans that will permit of the removal of the funds from the bank and even from the state or country. This strain upon business compels banks to call in their time loans on speculative investments and to confine new loans and renewals strictly to pay roll needs and the merchants' supplies. And, as the demand becomes more acute, it is necessary for the bank to strengthen its reserves as a safety precaution against deposit withdrawals—real manifestation of a money panic.

If the bank is free from speculative entanglements it should be able to weather the storm; but it may fail, not from lack of security, but from being unable to realize at the moment on the best of security. The acute demand is for money—money which can save property from the terms of impossible contracts which can only be paid by the literal coining of factory and farm products into legal

tender money. Were the contracts payable in products, there could never be a panic.

Nor can borrowed money in any volume do more than postpone the inevitable, since to borrow money with which to meet a maturing obligation is only to shift the obligation and postpone a payment which will call for an increased amount of money when it again falls due. However, an emergency currency which might be issued by banks on high-class security and under rigid regulations, would prove of immense benefit in protecting banks from the insane rush of panic-stricken depositors, thus preventing the sudden shock of business suspension, but it would only be a change in general results from sudden death to lingering consumption. This applies to the general debtor condition and not to the individual case which might unload upon others and save itself if time and money were temporarily available.

An overdue debtor condition may be possessed of immense values in the form of productive capital and stored products, but these are not legal tender. The maturing and overdue contracts call for money where no money ever entered into the compelling condition which made the debtor condition a necessity. When money becomes the one thing necessary in meeting overdue obligations, the only way of obtaining it is by the sale of products; and, it must be observed, those to whom the money is due are one and the same with those who own and control the money, and to them would fall the privilege of issuing the elastic credit money. While holding the only legalized substance which can make the payment, they have no need for the only things which the debtor condition has to offer in exchange for this all-important substance. While holding both ends of the bag, they are a smiling supply of the resources of Nature and of the only substance which they will recognize in payment of their price. Where is the fund which can make the payment?

But do not condemn the banks; they are only commission agents.

CHAPTER VII.

THE DRIFT OF HUMANITY.

The drift of humanity, like the movement of natural forces, is along the lines of least resistance. Necessity has been called "the mother of Invention," but there can be no relationship, since necessity can only beget expediency and makeshift. Incentive is the parent of Invention, since Genius will only consort with what is inspirational. The drift of humanity in escaping the oppressive has always been a necessity, and in this drift they have ofttimes surmounted greater hardships than those imposed by the oppressive conditions which caused their unrest.

Search literature for the highest sentiment of the human mind and it will be found to rest in the hope of finding "a favored land of equal laws and happy men." In this hope lies the inspiration to religion. Search history for the primary cause of the disturbing unrest of the human drift which, like the sands of the desert, is driven and piled high in one place today only to be shifted and piled elsewhere by the shifting winds of the morrow, and you will find the cause of unrest to lie in the desire for freedom. While allurement has always led immigration it is oppression which has always driven out the emigrant, since it is unnatural for humanity to leave friends and home for the wilderness and the unsocial language and manners of foreigners.

But, in whatever age or whatever clime—and whether the form of government were patriachial, a democracy, an oligarchy or a monarchy—the real measure of liberty

and freedom of a nation or people, at any time and in any age, has been the price they must pay for the privileges of natural resources. They may have been persecuted for religion's sake and its prejudices, but that has ever been more an excuse for strife than of religious principle, since man has always sought opportunity for plunder and vindication for slaughter; and in view of results, no matter how high the principle nor how deep the prejudice, a heavy tribute could always palliate all religious differences, and if the tribute was not forthcoming it was more satisfactory to rid the land of the man than to change his religion. All early missionaries were men-at-arms and their work was more for the conversion of the land than for the conversion of its inhabitants. The Promise made to Abraham was a promise of land, and it was over the land that the servants of Abraham and the servants of Lot fell into dispute. The forty years of the Israelites in the wilderness was but a search for land, with spies sent out to find fertile lands with profligate inhabitants. All ancient history is but the recorded strife for land and even though the fair form and bright smile of lovely woman was the exciting cause that led to action, the conquest of the land comprised the spoils of the victor. All legendary lore is interwoven with fabulous tales of lands beyond the mountains and the seas, and the last glint of the sail which pushed the cockleshell ship of the ancient mariner toward the unknown was often the last ever seen of those who braved the storms and tides in search of these alluring fabled lands.

But now the world is known and all its fertile lands are measured, staked and priced, and the modern drift of humanity has also been toward the fairest prospect offered by the lowest-priced lands. From the eastern shore of a new continent, this drift has led over mountains and through forests, that homes might be found where ignorant monarchs had not spread the land grants to court favor-

ites and where men could expand in a free atmosphere to the limit of their ideals. And as ideals can develop only where man is free, to find room for ideals the drift of humanity still pushed onward—spreading outward over broadening valleys and prairies—only to be again confronted by the land grant and the rising price.

And a change comes in the human drift. It is no longer a surging onward to settle new countries and found new nations; it is an eddying drift around centers, seeking diversion rather than the development of ideals. An eddying drift, impelled from the East and repelled from the West, the course shifting with the changing air-currents of superlative advertisements which promise more than can be found. An ever-accumulating human driftwood, the sargasso of the human sea, following the lines of least resistance and shifting from the rising currents of cost and price until stranded rather than anchored in the slums of swollen cities. It appears as a drift away from the land.

Farms half-tilled for the lack of help, and a constant drift from farming communities with corresponding concentration in cities,—this has all the appearance of a change in human desire. The human drift which for ages was toward the lowest-priced lands of the habitable world has now shifted and is tending toward the highest-priced locations in the world, as if the possession and use of land has ceased to be an object of human desire. Formerly, the immigrant passed onward from our ports of entry into the sparsely settled interior where there was little demand for his labor. This shows a world-wide change in the tendencies of the human drift, which really appears as a change in human nature. But, is this change in the drift of humanity a change really in people's ideals and desires, or is it the result of a change in economic conditions which are suppressing ideals and limiting desires?

There are things which we know to be beyond dispute, and one of these is the assimilating force with which this country formerly transformed the lowest of European emigrants into desirable American citizens. The dwarfed and warped mentalities of the rent-racked peasant and slum denizens from the worst governed countries could expand in the American forests into the semblance of men, and their children could be developed into home-making, school-founding, state-building pioneers. Healthy bodies, even if minds were devoid of ideas, were all that was necessary to be planted on the free lands of a young nation, and a crop of free-born citizens of education and business ability would grow and command the respect of those who were the oppressors. Nor was it a matter of religious and moral principles among the earlier immigrants which caused their mental development from "brothers to the ox" into the company of men, since many of them were forced to be emigrants on account of crimes and moral viciousness. Nor can it be charged that the present lapse from religion and the present tendencies to lax morality in the descendants of these former immigrants is a matter of heredity, since we are failing to Americanize and assimilate the present and more carefully scrutinized immigrants with results as satisfactory to ourselves and to them as with former immigrations.

Where formerly all nationalities were assimilated and Americanized with a complete change of their language and nationalism, and with but little provincialism, now we find not only the second generation clinging to the mother tongue and national customs, but we also find our native bred children and young people absorbing these foreignisms by associations, and with a growing mongrel result which is neither American nor foreign. And this in spite of our better schools and enforced attendance. Where formerly we had the foreign bred, weak-minded tramp, who half realized his infirmities, we now have the

keen-witted American bred hobo, the Ishmaelite of the labor world, whose hand is against every man because he believes that every man's hand is against him. All these are in the eddying drift of humanity.

And the earlier ideals, which led the earlier onward drift,—have they been realized? Has this westward drift of humanity been only a chase after the "bag of gold" at the end of "the flying bow of promise that spans Hesperian climes?" In a measure, the earlier ideals have been realized,—yes, and in measures so large that many idealists do not comprehend the nature of the realization and are still looking forward; but to the eddying drift of humanity it is much like an atmospheric condition which is felt without being seen.

With the passing of free lands, has come a change in the ideals of the toiling masses. There has come a change in the evening conversation in the homes of wage earners —the evening conversation which means so much in shaping the minds of the coming generation. Where formerly the parents and the evening callers talked of their long-cherished plans of going out where the country was new and locating a homestead or settling in some new town and building up a business, as had Bob or Steve or Bill, and where the young mind grasped the glories of such possibilities, the children now listen to the rights of labor and the injustice of grinding capital, and to a discussion of rising trust prices and higher rents. Formerly when some worthless fellow had married his equal and was breeding a family in a village shack for the neighbors to care for—or when he was out on the barrens in an abandoned lumber camp "raising children for the game laws to protect"—his boast was always of what he was going to do and the children felt that it might be done. Whether a fiddler or just a plain failure, he was always going to do something, always entertaining and harmless; but now his ilk, by their fluent gab and pessimistic views, have become

a danger—not only to their associates but also to the children, to all of whom they are fond of talking. Not that any of such people would ever attempt to carry out their ideals, but that they had such ideals and that they drew upon them for their own satisfaction, was a benefit to themselves and to the young minds that were looking to them for example and inspiration. While anticipation may not prove as satisfying as realization, yet anticipation is far and away ahead of nothing, when the mind is planning comforts for the body. And to the practical mind, to any mind worthy of the name, anticipation must be confined within the limits of possibility, and just as the possible contracts its limits, so must anticipation be limited or turn elsewhere in its planning.

So when free lands became impossible, anticipation turned elsewhere to build its new ideals and plan the comforts of age; and just as anticipation has been forced to change its ideals, so have the new ideals changed the drift of humanity. Children no longer hear their parents planning to go out to the land of Somewhere and build a grand home on that tract of rich land which is theirs by inherent right. So the mind of the country child—born landless—can see no landed prospect on which to base his ambition, but the city looms with the enchantment of distance and the ideals of childhood are the greatest lures of young men and women. Even to the young man inheriting the minor portion of a small farm, the city bids higher for his services in attractions and prospects than does the small part of that which, as a whole farm, never supplied an over-abundance for one family. And to build for his home means an indebtedness, since but few farmers —even if free from encumbrance—have a surplus from which their heirs can draw to erect farm buildings and stock new farms. And if dividing a farm among the average number of heirs, in the first generation after settlement on the farm, will result in a debtor condition

when each is housed and provided with stock, what must be the condition of those who are born landless if they would become possessed of farms?

To be born without the price sufficient to pay for enough land to give employment in earning a modest livelihood is to be born to a debtor condition; and from the debtor condition the drift of humanity must adjust itself, if employment be maintained, to the movement of credits, since wages are drawn from credits. As a debtor condition necessitates credits, and as credits are better organized in cities than in farming communities, and as being born without the price of living is a debtor condition, it naturally follows that the greater portion of those within the debtor condition must drift toward the centers where credits are most available. Free land being a credit condition, and to be without the price of living being a debtor condition, and as credits cancel debits, for those without the price to drift to the free lands is but to realize a balanced economic condition. Therefore, the drift of humanity—being caused by a debtor condition—naturally tended toward the absolute credits of free lands; but, with the passing of the free lands—since credits are absolutely necessary to a debtor condition—the drift of humanity must tend toward the largest and best organized volumes of credit. While this eddying drift of humanity from country to city and from smaller to larger cities is really a drift away from the land, yet it is really a drift towards the concentrated products of the land, and is much as with farm stock which will follow the farmer wherever he may lead—provided he is carrying a basket of grain. While ideals lead the drift of humanity, yet the ideals of the masses are always shaped along the lines of least resistance in obtaining a livelihood, and these lines tend towards free lands or organized credits.

For instance, John and Lizzie are good and wholesome products of the farm, each inheriting the minor portions

of small farms which were sold in order to make settlements among the other heirs. Their inheritance being small, after a term or so in the village high school or in some school of business they find themselves on the debtor side of the economic condition,—not in debt, for they may still have some money, but on the debtor side of a condition which compels the seeking of employment instead of employing themselves. Having money enough with which to buy housekeeping necessities, they may start their married life free from indebtedness, yet they are on the debtor side of the economic condition, since John must seek a credit condition in order to find employment which can pay him wages. In the neighborhood of their birth there is an imperfect credit condition which can give them employment and house them, as single people, in the homes of their employers; but, as a family, there is no credit which can provide them with an independent home, such as can be had in cities. Their small sum of money might have paid for a few acres if a farmer could be found who was willing to reduce the size of his farm,—which would be contrary to rule, since they prefer to buy more rather than to sell a small part. But, even though they buy a small plat of land, they still will be without a home until a house is obtained on credit; and it is the question of the availability of credits, not in wages but in the matter of the home, which finally casts the deciding vote in favor of city over country life. The ideal must accommodate itself to convenience.

While there are exceptions to most rules, and while a few people go from the cities and make a fair success on farms, yet, as a rule, the drift of humanity is from rural to urban. Those who remove from cities to farms to engage in agriculture for the most part take sufficient capital with them to be fairly free from indebtedness. Those who remove from farm communities to cities generally have little or no capital—unless they are retiring

from active life. This would seem to show that those going from cities to country were doing so for the purpose of capital investment, while those going from country to city were seeking employment. Yet, the farmers complain of a lack of help while farm-bred help is seeking other employment in cities. Why is this so?

In answering this question, we must take into consideration the conjugal side of human nature. While the human animal is sociable and desires a community of company, he is not gregarious in connubial life. The neighborhood and the congregation may swarm and pack, but the household line must be clearly drawn and definite. It has frequently been said that no one house is large enough for two families, and if anyone will take the trouble to investigate he will find that while most farms require the services of two or more families—or the equivalent in number and sex—yet more than one house on a farm is a rarity. A further investigation will show that men will go to any part of the earth for employment. Men will go to the Poles or the Equator, to mountain tops or into the bowels of the earth, and for a time will endure gregarious living, but they will not stay long on the job without the companionship of women, and while women will go to any place where men can earn a livelihood they will not stay long where they can not enjoy the independent household. Neither dangers nor hardships frighten women more than men; the log cabin in the forest and the dugout on the prairie were cheerfully endured by women who knew they were building a civilization. Even though they knew the prospect for betterment lay beyond their span of life, their feeling of independence from domination was a reward for privations. Free lands not only offered labor and wages to the landless, but also gave promise of independent homes; the farming community offers only work and wages to the landless. With a rifle and an ax, the earlier woodsman was capitalized. The rifle could obtain food from the

live stock of the forest, while the ax could construct his cabin and clear the land for a farm. On the prairie, more capital was required, but the farm could more quickly be developed. In either case, while hardships were plentiful, there was little question or concern regarding absolute necessities, and the margin of profit was in the value of the development. But, in a developed farming community there is no opening for the landless, as was the case when the present owners or their predecessors first came.

It has frequently been asserted that young people were not willing to begin life as did their parents or grandparents, but such talk is idle—for they could not if they would. To those starting with nothing but strong bodies and willing minds, the farming community offers nothing but wages, while the city offers equal wages for relatively skilled labor and an advancement with increasing skill,—and, in addition, a house in which to live, and furnished on installments if need be. And the farm only offers part-time employment for much of its needed help while those seeking employment for the support of families must have full-time employment. While the farming communities could easily and profitably employ twice the present number of helpers, and with greater advantages in schooling and rural conveniences coming with an increased population, yet it can not be made possible unless those owning the lands and controlling the credits will provide the necessary housing for the families. The landless can not now make a start with a rifle and an ax.

"Back to the Land!" is the cry of many would-be reformers who would right the wrongs and adjust the differences of social conditions without recognizing the compelling cause of what they so much deplore. As well might Adam and Eve have shouted "Back to Eden!"—since the price of the land is as much a bar as was the flaming sword. John and Lizzie can not go back to their birthplace to rear their children.

CHAPTER VIII.

THE DANGER TO CIVILIZATION.

It is so easy and so common to predict the end of the earth and the downfall of civilization, that only fanatics take notice and only alienists take a scientific interest in such predictions. Yet civilizations have risen and fallen in the past; and with each there must have been an incentive that led to the rise and a cause that led to the downfall. In their study and conclusions, some have come to the belief that morality and religion have been great factors in the rise of a people from a savage state, and that laxity in and adandonment of these principles have led to their decline and to the fall of their civilization. While morality and religion are essential to the higher incentives of the human mind and in shaping the ideals to which men aspire, it should be observed that every civilization of the past has been associated with a different religious faith and that even their deities were noted for their immorality. Though historians speak of the crude and earlier virtues of a people who later came into prominence as ruling factors in a higher civilization, yet these virtues are not defined and instanced. We can not find wherein the earlier Greek was more religious or more moral than the Greek of Athenian supremacy or at the time of the Roman conquest. The first moral act recorded in the history of Rome is of a fatal quarrel between two brothers, and the next is the "rape of the Sabine women."

We can not ascribe the rise or fall of any civilization to any particular religious faith. The rise and fall of Grecian civilization was without change in religious faith. Roman civilization rose to its height under the influence

of one faith. It declined and fell after passing under the influence of another faith, and an opponent of Christianity today could argue as strongly that Christianity was the cause of Rome's downfall as can the most devout of the faith argue that it has assisted in the rise to present civilization. The Christian faith has been associated with the fall of one civilization and with the rise of another. As its effect can not be measured, either in the fall or the rise, it is an idle argument. Nor should the present deflection from churches be regarded as a deflection from Christianity, since the churches disagree among themselves concerning many articles of faith, and when leaders disagree their followers must be accorded the right of independent thought. Therefore, morality and religion should not be subjects of attack when economic questions only are under consideration; nor should religion be injected into economic study by those who assume to know the unknowable, nor by those who would destroy a world just to satisfy their own fanatical vanity.

We have no reason to predict a decline in our civilization on account of a lax morality—especially public morality and business ethics. While there is more graft and fraud being exposed than formerly, it is not that there is more to be exposed, but because the people demand exposure and punishment, and that what formerly went unnoticed and uncondemned is now looked upon as criminal. While we have men of great ability who are inherently dishonest, who take any advantage for self gain and promotion, who promote schemes which absorb great wealth at the expense and loss to productive force, yet all men of great constructive ability are inherently honest. The constructive mind must have an ideal and all ideals are honest—even though some may be mistaken. The constructive man may be hard-headed and overbearing, and in commercial warfare may employ questionable methods, but he always believes in the right of what he does and

will always be as honest as conditions will allow. The man who builds can be trusted, but the man who only absorbs may well be doubted.

As the bulk of the world's business is still in the hands of constructive men, it is safe to say that production and commerce are fundamentally honest. In fact, the confidence of the people is such that women trade by mail halfway across the continent as confidently as with the nearest merchant. And this is the result of honest dealings by constructive men who have built the business of their day; but the scheming promoter and business absorber is taking advantage of this confidence to obtain of the hard-earned wages of impatient people.

No, if there is to be a decline in present civilization, it will not come as a curse to an honest people who are striving for the better in morality and who only question the articles of religion without doubting a just God. If decline comes to present civilization, it will come because of a universal business failure resulting from general mismanagement of natural resources. It will result from over-capitalizing the resources of Nature,—over-capitalizing until the earth itself becomes so expensive that the toiling masses can no longer pay for the privilege of their being and also buy the products of the factories which give them employment.

The danger to civilization lies in the increasing cost of raw material, which increases the selling price of all products, and in the increase of rentals, which reduces the ability of the people to buy the products even at lower prices. Higher royalty costs in production must result in higher prices without higher wages with which to pay the higher prices, while higher rentals and building lot prices must reduce the market sales of products, thus destroying the market and rendering the factories unprofitable,—with the result of destroying employment. The price must cover all cost, and price will bankrupt the consuming masses

while the costs will bankrupt productive capital. The decline will be a fall.

History records no economic condition similar to that which underlies present civilization. In all former times, the handicraft of a people has developed with developing civilization, giving finer touch and tone to arts and sciences and giving more and better of that which could satisfy the more refined tastes. In further development, the handicraft evolved certain tools and conveniences which greatly added to workmanship and results. A hand capital developend, and the more skilled the artisan, with better tools and conveniences, the better and larger was the volume of products.

With us, it has been different. Instead of developing a handicraft as skilled as that of former civilizations, we have developed—to supply our needs—better tools and conveniences which have practically make skilled handicraft unnecessary. From the first improvement of tools and conveniences to the old neighborhood capital of our grandfathers was but the step of one generation; from the conception that machinery could do the work of the artisan to the establishment of factories in every town and hamlet where raw material could be found and where people gathered for marketing, was but the step of another generation; and from a full realization of the possibilities of machinery, it has been but the step of the present generation out of the little old factories into the industrial palaces and dungeons where the swing and whir of automatic machinery has now rendered man second to the machine. The handicraft is gone, the machine is omnipotent, the factory has become indispensable, and if it fails for lack of a margin of profit, civilization must fail for lack of products.

As noted in the beginning of this work, we are now factory employed, factory housed, factory clothed, and factory fed. Our civilization is based on the factory, but the factory must have a market; and modern civil-

ization is the most profitable market the world has ever known. Our products are our purchasing power and our purchasing power is our products and can just buy the products on an even exchange. Therefore, the increase—or what is new in production in any one season—constitutes the total purchasing power of that season. This purchasing power is divided and diffused along the lines of cost; whoever has contributed in cost to the product receives purchasing power in proportion as his costs are recognized.

Hence, since capital and labor must have raw materials for their products and must have vacant lands for their growing needs, and since they have no manner or means of paying for raw materials and vacant lands except by evolving and selling products, and since the limit of purchasing power is the selling price of the products and must be divided according to recognized costs in the product, it must be evident that all costs which have been recognized, and which have been covered in the selling price of the products, must enter the market in buying for consuming needs or there must be a surplus left on the hands of capital which must check production and destroy the incentive thereto.

Since incomes only can enter the market in buying for consuming needs without economic loss, and since royalty costs and receipts from land sales are in no sense incomes, but are estate principal which must be invested at interest to maintain the estates, it must be evident that the receipts from royalties and land sales evolve into loanable funds which can enter the market only in buying for consuming needs when satisfactory security can be given for credit consumption. And since the purchasing power of each season can only buy and make payments for the products of such season, it must be evident that no future season's products can ever evolve a purchasing power sufficient to pay for their own price and leave a surplus which can be

applied in liquidating any deferred payments caused by past deficits in commercial balances. Therefore, since all secured time-payments are but deficits caused by unbalanced commerce in some past season, and since each successive season adds to these deferred payments coming of unbalanced commerce, and since no future season can evolve a surplus of purchasing power which can be applied in liquidating any part of these deferred payments, it must be evident that these accumulating deferred payments will strain credits to the breaking point and result in a panic, wherein only money and not the balancing exchange of commerce can make payments.

All of which has been previously mentioned; and it is only necessary to add that, during a panic, the only possible way of adjusting and balancing these deferred debits and credits is in the change of ownership of the securities and in bankruptcy covering the unsecured deficits. The panic—the demand for money—which first falls upon the bank, is later shifted to the securities as the bank shifts its responsibility as the medium between creditor and debtor. Foreclosures, private agreements and court decisions shift property ownership and fairly reach a credit balance, and that which will not balance slides into bankruptcy. Thus we have the apparent paradoxical condition of a booming production creating a deficit by an increase of products and of the deficit being liquidated by a partial suspension of the only force which can generate purchasing power.

This reversion to parts of former analysis is only so related principles may be grouped in a new application.

When capital and labor constituted the principal costs in production, supply and demand fairly regulated prices and the volume of products; the flexibility of both wages and profit margins was such that much variation could be accomodated, since fixed costs with each were few and small. But with the coming of land value as an element of

cost, which must be covered in the price of the product, the price became more rigid, since land value has no elasticity other than expansion and time-payment accommodation. With capital and labor as the whole cost of the product, a 10 per cent change in each would equal a change of 20 per cent in selling price; but with capital and labor cost equaling only one-third of the cost covered in the selling price it will be seen that a 10 per cent change in both capital and labor could only change the price 7½ per cent, while a reduction in price of 20 per cent must result in a loss to capital and labor of 60 per cent of their total share in the product when measured by their recognized costs in the product. With capital and labor as the whole cost in the product, to cut prices one-half would still leave a margin of sustenance; but with a capital and labor cost in the product of only one-third its price, to make a cut of 33⅓ per cent would wipe out their entire margins of interest and wages.

Thus it will be seen that prices are no longer regulated by supply and demand, but by land value costs, since these costs are arbitrary and independent, to be paid or secured in the beginning of production or to be let alone until a larger population is compelled to pay still higher prices for these privileged values. That land value does equal two-thirds of the average cost of production, is assumed from the deductions taken from the United States Census Reports which show — after making fair allowance for duplications—that in 1870 the combined costs of capital and labor in production equaled 94 per cent of the factory selling price while land value cost was only 6 per cent of selling price; then a gradual rise in land value cost of materials is shown in each census year until in 1905 the tables show costs to be in this proportion—capital and labor 34 per cent, land value 66 per cent, of factory selling price. That these figures are right may well be questioned, but that land value costs have enormously increased can not

be disputed; therefore, while the figures may be questioned, the principle of the deduction is beyond dispute. An analysis of the cost sheets of manufacturers should be the best evidence of this deduction; then consider the higher nominal wages paid to labor—wages made necessary by increased rents which can only be charged to higher land values, since it must be paid for old houses which are in much poorer condition than when they rented for less.

Hence, with land value constituting the major portion of the costs which must be covered in the selling price, the price must have less elasticity, since the land value cost is absolutely rigid, with labor cost made more rigid by the fixed costs which absorb wages, and with an average margin of only 8 per cent accommodation between profit and loss to capital. And while it can not be argued that 8 per cent is not a sufficient margin for capital, it can well be asserted that a 92 per cent responsibility is an overburden on productive capital which threatens, not only its own 8 per cent margin, but also the 26 per cent of production cost which is paid out in wages. The responsibility of civilization now rests upon productive capital (not capitalists), and productive capital rests upon an 8 per cent margin between production and suspension, since it must suspend if its dwindling profit margin fails. And fail it must if the market fails; and the market depends entirely upon the ability and the disposition for buying and consuming by those who have contributed in costs to the selling price of the products. And the disposition to buy for consuming purposes is as important in giving a market for products as is the ability. Many have contributed in the cost of production far in excess of what they can need if they should buy in proportion as they have received from these costs; while some, if they were compelled to consume their part, as measured by their cost share, would be in greater stress than was "Brewster" in spending the "millions."

The responsibility of productive capital has increased just in proportion as its margin of profits has decreased. The concentration of ownership in natural resources, and consequent rise in royalty and vacant land prices which has reduced the margin of profit to productive capital, has forced the drift of humanity to turn to productive capital for employment. Where the drift of the landless was formerly towards natural resources for self employment, it now turns to productive capital which can deal with the owners of natural resources to better advantage than can the uncapitalized individual. Therefore, as productive capital became the intermediary between the basic source of all employment and those who must have employment for sustenance—the intermediary between the land owners and the landless—it assumed all responsibility which either extreme owes to the other. A 92 per cent responsibility on an 8 per cent margin!—not alone the responsibility of maintaining the integrity of the invested capital, but also the responsibility of maintaining the payrolls of the landless millions, who have no other recourse than in demands upon productive capital. The responsibility towards landless millions who demand employment as an inherent right and at wages sufficient to meet an ever increasing rent bill and sufficient to pay ever increasing land-value-padded prices on the necessaries of life; the responsibility for the inherent rights of landless millions, which rights—if ever existent in principle and morals—have been absorbed in the concentrated ownership of Nature, and which productive capital can only redeem in fractions by paying the ever rising royalty costs on the raw material necessary to give employment.

Productive capital does not own the earth, but it is held responsible for the prices of the land owners and the wages of the landless. Capital is even blamed for the conditions and wages in mining districts and furnace towns where the owners of natural resources are in full control;

where capital is only incidental to land value development, and where the products are only crude or partly finished raw material. There must be a distinction made between the productive capital which is buying the material and finishing the product for ultimate consumption and that capital which is used only in developing land values. The one carries great responsibility while the other has no responsibility, being subservient to the capitalization of Nature.

So far, we have found partial relief in industrial expansion, which has enabled us to employ labor and consume on credit, with the burden of to-day shifted to the future. Every factory addition, every business block, and every railroad improvement and extension, each in its building is a part of productive increase which is generating wages and economic interest to productive capital, as much so as are tables, stoves and clothing; but they are not placed upon the market for general consumption. Such forms of construction, being products, generate purchasing power to the extent of their labor cost; yet, as products, they do not exchange for other products, but for the loanable funds which have been generated from land value by other products. That is, the land value cost of products which are for evanescent consumption—cost which was covered in the selling-price but which did not enter the market for evanescent consuming—being transmuted into investment funds, now enters the market in buying for consumption in concretion, or investment. Thus the land value cost of evanescent products, evolved into purchasing funds, is changed from the profit on a landed investment into a permanent investment in concrete products. While this tends to and in a measure does balance the market, it also tends to unbalance population, since population must drift to those centers where these land value funds are employing labor in constructing these concrete investments. The people must drift toward the funds generated

by the value of the land just as they formerly drifted toward the land before it was funded; the land, or the funds coming from the capitalization of the land, being absolutely necessary to employment. Thus public calamities—such as earthquakes and conflagrations—become public benefits by giving employment without adding to marketable products.

As previously analyzed, the construction of a factory employs labor and generates purchasing power in the same ratio to employment as does the product of the factory when completed and put to its intended use. But the factory—as a product—is not put upon the market in competition with other products, and in this respect does not bear the same relation to the market—as a product—as will its own products when it turns producer. Therefore, the more products there are being consumed in concretion, the greater the volume of purchasing power made available for evanescent consumption, thus having a balanced market only during a building boom when the funds generated by land value are being transmuted into renting estates or being loaned on municipal and industrial bonds to assist the boom. In either case, with the boom passed, there is an increased need to produce and sell, and at higher prices, with a corresponding lack of available purchasing power with which to pay any price. Since a building boom must depend upon the concentration of population in certain centers where land value funds accumulate, the pertinent question is—how long can population continue to concentrate and produce booms which can only temporarily balance the market and give productive capital the purchasing power necessary to pay the rising royalty prices on raw material and thus redeem the inherent right of labor to employment? Civilization hangs in the balance with productive capital—on an 8 per cent margin against a 92 per cent responsibility.

And civilization being a quality and not a quantity in population, it may be well to consider whether concentration of population tends toward higher incentive and ideals or toward deterioration of morality. Go to any growing city and view the beautiful homes which are coming into artistic being on favored highland plats and no one can well say that the city is not developing a betterment; but the census will show that the increase of the city's population does not live in these beautiful suburban residences which, while they cover wide reaches of park lands, are few in number in comparison with the number of families the city must house. The real increase of population will be found in the poorest of the tenement sections and in the abandoned homes which once rang with the cheer of one family, but now are converted into beehive rooming houses, while the new and convenient "flat" buildings are crowded with people of refinement who were born and reared in much larger quarters. The city's increase in population is crowded; the greater portion of this increase is over-crowded; yet not for the lack of room but for the lack of the price to pay for room. The concentration of population must tend towards the concentration of that which can house and give employment.

Farm lands offer no housing for the families and but little steady employment for labor; nor can poverty and degradation hide itself and be so well provided for in the open farming communities as in the most densely packed portions of our cities. The more dense the community, the greater its richness; and the offal of this very richness gives to the derelicts of humanity a sustenance, while the weaker of the working classes are crowded into decaying tenements between the dens of crime and the styes of the derelicts. And the weaker members of the human family are always followers and never leaders; while their natural desires would be for the better, their tendency is along the lines of least resistance and toward the most at-

tractive for temporary use and enjoyment. With such—and they are the majority—living becomes a matter of costs, and principles must be subordinated in obtaining the price with which to pay these costs, since self preservation—to exist—is the first law of Nature.

The quality of civilization, the quality of each invidual, becomes resolved into a matter of cost and price. The cost must be paid and how to obtain the price is what shapes the mental faculty for good or for bad; even with some who have an abundance with which to meet costs, the ways and means by which they obtain this abundance warps their mentality and imbues them with prejudices that can cause satisfaction in the taking of human life when their finances are threatened or even questioned. The nerve strain which is driving humanity to diversion or distraction is but the strain of costs and how to meet them. Men are chasing the dollar only because costs are chasing men and the dollar is the only food that can satisfy costs. Even the home, the bond of marriage, and the rearing of children are being resolved into a matter of costs, since love must be housed and fed and the furnished room can not make a home, while crowded streets and alleys are not proper playgrounds for children. The child that can live the first year on chemical milk may develop a robust physique in the filth of the alley and become immune to disease and morals, but the mind must develop some ideal whereby the animal needs and desires can find a degree of satisfaction as maturity develops. And satisfaction being a matter of costs, the ideals must be formed to fit the nature of costs, as how to get the greatest satisfaction with the least cost. Nor does such environment necessarily lead to crime, since we can find a crude sense of justice together with real charity among the denizens of any low environment, but the dwarfing of morality and the warping of ideals tends toward the short cuts to satisfaction when costs are too

stringent or impossible of payment. Crime is largely a matter of comprehension, since it is but an infringement of justice and morality; when legalized, it becomes moral to the minds of many; when penalized, to the minds of some, the real crime lies in detection and not in the commission.

In fact, the conditions of city slums do not lead to crime; they are criminal within themselves and constitute an injustice to morality and to humanity, and the real denizens—the victims—should be credited with the good that is in them rather than charged with the crime which surrounds them. The real criminal seeks the slums only as a place of safety, as the wolf seeks the swamp lands and the tiger the jungle. To the weaker members of humanity, the slums have no attraction; it is only because the ways to the slums are the down-grades of cost that so many drift in while so few climb out. The slums constitute the lowest level of monetary cost, the last stage of economic existence towards which unnatural and unpayable costs force the weaker members of humanity. No matter what may have been the social or financial standing of the individual, the down-grade of costs leads but to the poorhouse or the slums. It is all a matter of costs and the ability to pay the price. The cost of maintaining a home weakens the marriage ties, and the conditions of the slums render marriage unnecessary.

The morals of the people become adjusted to cost and price, yet they never lose entire faith in a just God. They may lose faith in the Church, they may lose faith in humanity and in themselves, but their very nature calls out for something better and they feel that God only can understand and that He will have mercy in proportion to their miseries.

The tinsel of the city is not what attracts the drift of humanity. The earlier drift left all cities behind, the free lands of the forests and the prairies being a greater at-

traction. Economic conditions and their changes alone move the masses in concentration or dispersion. The streets are not paved and lighted until a population sufficient to stand the costs has settled in a close community; nor is the theatre built to attract a larger population, but to gain the patronage of those whom economic conditions have drawn to the community. Price attracts and cost repels, while necessity compels.

So we can trace the drift of humanity by their ability to adjust themselves to the economic conditions forced upon them. The drift of the landless at the present time is toward the cities because the greatest owners of land values have organized and concentrated the credits of their holdings in the cities. The profits of the mines and the forest and the railroad franchises are transferred to the cities, and the people must follow these profit funds for employment and sustenance just as the farm stock must be shifted from the pasture lands to the sheds and barns where the fodder is stored in winter. The price placed upon all natural resources compels a debtor condition to all born landless, and a debtor condition compels the use of credits; credits are the best organized in cities, and the larger the city the better the organized credits. A house to rent is an organized credit, and the one who needs to rent it is on the debtor side of the economic condition. Even though the rent is paid in advance by one who has an income from a productive business, it remains a debtor condition as much as if the price of the house and lot were so much borrowed money. The landless must have credit in some form and they drift where it can be had to the best advantage and with the least offense to their ideals of independence.

"But," some of our friends ask, "why don't the landless save their earnings and become independent?"

A drunken cowboy on the fair ground mounted the 'bucking broncho" of the merry-go-round and laid a wager

that he could pass the elephant and the rocking chair which were in front of him. He had some fun, so did the crowd; but he paid the wager.

Many of the questions which begin with "why" can be answered only by asking and analyzing some other questions.

Q. What is the source of wages? A. Production.

Q. What is the object of production? A. To have and to use.

Q. Can labor be fully employed when the market is dull? A. No.

Q. What causes the best market conditions? A. The extravagance of the people in buying.

Q. What is the object of advertising? A. To induce people to buy.

Q. What is the object of free advice? A. To persuade people not to buy.

Q. What would be the economic result of a general policy among the working people whereby they were to buy as little as possible and save their wages, as they are commonly advised? A. A dull market, a cut in wages, a loss to full time employment, and, if the money were deposited in banks, an increase of speculative loans followed by runs on the banks and a panic.

Producing, selling and buying—these constitute a continuous and connected round of activity, as much so as the merry-go-round; and no part can pull ahead or lag behind without affecting the other parts. The working masses can no more gain an advantage in the economic condition by saving their wages than the broncho on the merry-go-round could out-run the rocking chair. Some can and do save and gain such advantage by their savings as to lift themselves out of the debtor condition in which they were born. So also do some gamblers win and save their winnings, and it would be as possible for all who engage in gambling to win and save their winnings as for

the working masses all to save a small competence by hoarding their earnings or by attempting to buy homes which are largely of land value cost rather than of labor and capital cost. As an individual matter, it is advisable that each shall try to rise above the condition of the masses, and to rise must mean faithful training, frugal living and careful saving of every means that will help to build a larger competence. But upon the masses rests the burden of maintaining the market that buys the products that generate their wages. Cheap and medium grade goods constitute the bulk of production and give employment to the majority. Years of shrewd and scientific advertising have educated the people in buying, and factories have developed and given employment in proportion as the wages generated by the products have entered the market in buying the factory output. The products generate the wages and the wages are the market. Buy less and the wages will be less. Stop buying and the wages will be cut off. And in this principle lies the danger to civilization.

Modern civilization is based upon our factories. The products of our factories generate our wages and our incomes. Factories must mave a market if they continue to produce and pay wages and incomes, but the price of the products must cover all costs in and to production. The wages and incomes of the toiling masses constitute the market for the bulk of all products, but these masses and people of slightly larger incomes can buy of the products only in proportion to their recognized costs in the products—less what they pay for the use and purchase of land.

Land value costs in and to production (royalties, rentals and land purchases) have so raised the costs and prices of products that the wages and small incomes of the masses are a much smaller portion of the production costs, and therefore can only buy a smaller portion of the products,—thus constituting a dwindling rather than a

growing market. And all foreign markets are in the same relative condition. The danger to civilization lies in the market for factory products. If the market fails, the factories must fail; and if the factories fail, civilization must decline and fall for lack of products and the lack of the wage and interest funds which now pay the price of the products. If our factories continue to produce and pay wages and interest on capital investment they must have a balanced market, and a balanced market can be maintained only when the costs of production enter the market in buying the products, which is now the case only through excessive credit consumption.

As the shifting currents of the air equalize the temperature of the seasons, so does the shifting and eddying human drift tend to equalize the economic conditions. A rise in land values causes an accumulation of loanable funds, not necessarily funds of money or funds of products, but a power over money and products,—therefore, a power over men. The sale of land on time is to create a loaned fund, and to the purchaser the present effect is the same as free land, since—not being paid—the real effect is postponed. Land being the source of all employment, free lands or the funds developed by the capitalization of land values, when made available, attract those who must seek employment just as the feeding grounds, shifted by the seasons, attract the migratory birds and animals. As these funds concentrate in cities, the drift of unanchored humanity must concentrate with the funds which can give employment. As all new construction, depending upon the future for dividends on expenditure, must be credit construction, the transmutation of land value funds into credit construction is but credit consumption of products. Depending upon the future constitutes credit whether the funds are borrowed for such construction or only shifted by the owners from a land value surplus to an interest-producing capital investment.

Credit consumption in any form will balance the market and keep our factories busy with employed labor; but credit consumption of a constructive kind comes in alternating waves called "business booms," thus giving a balanced market only when the boom is on. As a city can have a business boom only when it can attract the human drift and add to its population, and as the business boom is necessary to induce new construction and credit consumption, and as credit consumption is necessary to a balanced market, it must follow logically that the concentration of population in cities is absolutely necessary to the nearest possible approach to a balanced economic condition wherein our factories can find a market for their product and give employment to labor.

With civilization based upon our factory system, with the factories resting on an 8 per cent margin with a 92 per cent responsibility and depending upon credit consumption for a balancing market, with a business boom and higher prices necessary to stimulate sales, with a concentration of population in cities necessary to produce the business boom and stimulate the credit consumption, the question may well be asked—is our civilization in danger?

With an increase in the land value costs of production from 6 per cent in 1870 to 66 per cent of total factory selling price in 1905, with an increase of the land value costs of food products and of rentals equaling fully 100 per cent, and with the owners of natural resources seeing the necessity of a still further increase in land value prices in order to pay profits on idle investments, the question arises—is there any danger of the earth becoming so highly capitalized as to render manufacturing unprofitable on account of the masses being unable to pay prices necessary to cover the land value costs of the products?

There must be a limit to the concentration of population, since a balanced condition requires a food-producing industry which must be rural. Nor can the larger cities continue to produce booms with an increase of population drawn frôm the smaller cities, since a condition of general commercial balances requires that all organized credits hold their margins of profit even if they do not increase. The present drift of humanity is from the farming and lumbering sections towards the smaller cities and from the smaller cities to the larger. The drifting masses, being on the debtor side of the economic condition, must seek credits where the terms are most favorable,—not that they are in debt or seeking to supply their needs by incurring indebtedness, but that their immediate needs are far in excess of their accumulated means. Their needs are present while their means are future,—depending on future earnings, therefore, they must seek to supply their needs on the most favorable terms. Being born and reared without owning a house they find need for one and the organized credits of the city provide the house on one month's payment of rent, while in the country a series of years of toiling and saving would have been necessary even to possess a much poorer one. They need furniture, and the time of other years of toil and saving is shortened, in effect, when the organized credits of the city supply their needs on the "installment plan." The weekly wage payments of the city shorten the credit span between need and supply which, in the sparser settled and poorer sections of the country, must extend from seed time until harvest. Thus, in effect, the drift cityward eliminates the necessity for years of frugal saving which the price of the land forces upon those born landless if they would ever regain a lost birthright. The organized credits of the cities have these lost birthrights for sale and to rent on the installment plan, while the burden of employment rests upon manufacturing capital which

is redeeming the lost rights to the resources of nature by paying rising royalties on raw materials that wages may be obtained for the payments.

The burden of civilization rests upon manufacturing capital with a 92 per cent responsibility. Manufacturing capital must have a market, and under present conditions the market depends upon business booms coming of the concentration of population in cities. How long can population continue to concentrate and produce business booms resulting from a free expenditure of land value funds in credit consumption?

Napoleon failed for lack of men for his armies.

And what effect is the concentration of population having upon the minds, the morals and the ideals of the people?

In building towards a higher civilization, ideals must be formed before plans can be made and the work begun. Ideals that lead to betterment must have their being within the limits of the possible, otherwise they are but visions of a mind too weak to assist in the building. And, even in their visions, the weaker minds can find a degree of satisfaction that will lead toward the better and away from the vicious. But there must be something better and reasonably possible within the reach of those who are but average in their ability to plan and execute, since anticipation must come in occasional touch with realization or the zest and pleasure of ideals and visions will soon be lost in the morbid tendencies which come with disappointments. Ideals are as necessary to success in life as are blossoms in springtime necessary to autumn fruits. The ideals of youth are the blossoms which develop into the fruits of matured life. The ideals of country and village youth, feeling and seeing the limits of a narrow environment, formerly looked outward over an unowned empire of natural resources where uncapitalized manhood could stand on an equality in the presence of Nature and lay the

foundations of birthrights for a coming generation. But now the ideals of youth are formed along different lines. The lines that once led to the *great unowned* have become dimmed and lost in the land grants and in the privilege of the speculator; these lines no longer lead to the outlet for oppression, but there are other lines along which ideals can form—lines which lead to the city, the inlet for the oppressed.

And yet, with the loss to the masses of their birthright, there have come greater opportunities for men of special ability than the world offered with a new and free continent. Where formerly the greatest opportunities were for conquests by war and the taming and development of the wild, now the greatest opportunities are for the bloodless conquest of the masses and the acquirement of the accumulated development of a century of productive labor. In the conquests of peace, as in the conquests of war, certain strategic positions must be seized and held. In peace these strategic positions are the mines, the forests, and the shipping facilities, and with these held, all productive capital and all labor becomes tributary. With productive capital and labor tributary to the ownership of natural resources, an added profit comes by herding them in cities where their very presence and their very need gives an ever increasing value and higher rentals to the city lands.

This economic condition reaches out to the villages and fields with a demand for population with which to maintain and increase rental values. Even the slums have their demand, since every stall and sty must be crowded with human derelicts if their landlords are to obtain dividends on their capitalization; and the offal of the city is turned from a waste to a profit. Into this economic whirlpool comes the eddying drift of humanity with their visions and their ideals. And there is a demand for each and every one acording to individual ability, since each counts

double in rendering values—first, the value which increased population gives to land and rentals, and second, the value of their product as workers. The city always has a demand and an opening for all comers and, if they do not meet with the demand, they can fall into the opening and find lodgment between poverty and crime. No matter how crowded, the slums call for more, and radiating from their sordid centers runs a graduated scale of crowded rooming houses and eating houses where numbers reduce prices to points payable by those who can not afford anything that decency could grace with the word "home." The home is at stake, and the sex line tends toward obliteration in the efforts for existence in the lower grades of the economic scale.

In the last analysis it all resolves into the matter of cost and price.

The Classes and the Masses!—but where are the dividing lines between the grades, and where the barrier against contaminating intermingling? They are all human, and a gradual scale, up which many are ascending, runs from the bottom to the top, while a chute runs from the top to the bottom and is worn so smooth that it rarely clogs. Yet, within the masses—from those of higher ideals who are looking upward and building for the better, to the dissoluteness of the slums where soul and body have lost distinction—can be found the full range of human quality. The masses are the recruiting grounds for the classes, and upon the masses rests the burden of maintaining civilization.

But the better element of the working class is being jostled by the slum element along the lines of education and industry, while rising costs are crowding the better element nearer to the slums and extending the slums by their degrading cheapness.

The children from homes consecrated to divine worship must sit with those from the slums in the school

room and join with them in the democracy of the playgrounds and the streets. The young women from the Sunday school and the prayer meeting must touch elbows and socialize with those from the crowded rooming house and dance hall while earning their small pittance in stores and factories. The democracy among working men compels the ignoring of where a fellow workman eats and sleeps, and where and how he spends his wages and spare time. To live in a better neighborhood means the payment of higher rents. To seek a better social association means a more costly style of living in addition to the higher rents. It is all a matter of costs, and the bottom of the cost grade rests in the slums.

All day of a busy shopping Saturday, to be seen by the hurrying shoppers, and all day on Sunday, to be seen by the churchgoers and others, there was exhibited in the show window of a department store a number of granite ware dishpans to be offered for sale at ten cents each on Monday morning. And to those who failed to see these dishpans during the two days exhibition, the Saturday papers and the Sunday editions proclaimed the great fact. There were just six of these pans to be sold and if anyone can figure out and explain how every one of the two thousand women who were waiting for that store to open on Monday morning could get one of those pans they will be able to explain how every man can get a high salaried position that will enable him to pay the rising costs of land value. And there never was such a demand for qualified men as right now, or at salaries so high. But the demand is for supermen and the supply is very limited. The old saying, "there is plenty of room at the top," may still be true if you can find a new "top" and can build your own ladder at the present cost of material. We all know there wasn't room for two men at the North pole, and the South pole is now preempted. But what is expected of the masses other than to work and behave them-

selves? We can not blame them if they are not qualified to fill a position calling for a superman, yet we expect them to pay the higher costs forced upon them.

There is a growing restlessness among the concentrated masses of the cities. We call them "mobs" when they gather in protest against a condition which they feel rather than see. These "mobs" are but economic gasps for economic breath in a smothering economic condition. They are losing their ideals, since their best efforts applied have availed them nothing. They are becoming listless or vengeful, according to disposition, and ignore and resent the authority of law and order as being especially designed to interfere with their rights and privileges. As a matter of upkeep cost, they are becoming a burden to themselves and the added cost of children is dreaded as a pestilence, while filial duty to aged parents must be abandoned. While trying to uphold their social standing and their respectability, they are losing respect for themselves,—well knowing what failures they are when measured by the standard held up and extolled for their emulation. Feeling a coldness in the society which they wish to enjoy, they withdraw within themselves in a morbid resentment or seek exhilaration in exciting diversion or abandonment.

The husband fails to be promoted to the position of foreman, which he had long hoped for and studied to be qualified to fill. The wife failed to get one of the dishpans and the stock argument that their failure was the result of a lack within themselves may be physically convincing but not mentally satisfying. True, the job was there, and the pans were there to be taken by the hustlers, and the argument must stand that failure resulted only from a lack of hustling. The buoyancy of youth can not wholly be suppressed; therefore, we find the boys and girls in the crowded sections of cities and in villages and on farms still forming their ideals and building toward their realization. But such ideals, and their realization! The picturesque

success of the champion pugilist and the major league ball player is the glittering lure of young America, and thousands upon thousands of boys can not abandon these ideals until, after neglecting to qualify themselves for anything useful, they arrive at full maturity and are fully convinced that they lack the "punch" or the "curve" necessary to championship. Yet their training is not wholly a loss, since it qualifies them for rowdies and tramps, from which the criminal class can be recruited.

Optimism is proper mental food for the successful ones and for the "cheerful idiot"; but when, by logic and by practical example, you convince one-half of the people that they are so mentally and physically deficient that, while they may have the needs and desires common to humanity, they are incapable of supplying their needs and desires, you are laying a train for trouble or deterioration. And the optimistic strain of positive assertions that great prosperity is upon the people, and that whoever fails to be prosperous has only himself to blame, is doing more to disturb the masses than all the agitation of our would-be reformers. When men have done to the best of their ability—have put in full time labor at the maximum of wages in the occupation for which they are the best fitted—and find themselves falling behind in the realization of life's common comforts and are being pressed by actual necessity, the optimism of prosperity falls upon them like hilarity at a funeral. Not that they are inclined by nature to pessimism, but that they feel and know that the highest wave of prosperity and the best of their ability at full-time employment and the highest wages can give them nothing better than a waning existence. Optimism tells them that the fault lies within themselves and to believe is to lose confidence in themselves and dwarf their manhood. Optimism has already led them to buy furniture and clothing on the "installment plan," but it now offers them nothing better than *economic Christian*

science with which to pay their rent and buy their winter fuel. Optimism shows them what is possible to men of *great* ability; the agitator tells them what is justly due to men of *their* ability. Optimism crushes their manhood by convincing them that they are natural failures, while the agitator revives in them a degree of optimism by bracing up their manhood with the belief that they are victims of injustice.

There is nothing more threatening to civilization than masses of men who are losing confidence in themselves and who are gaining in the belief that they are victims of injustice. Optimism excites and increases their desires without in any way satisfying their needs.

There already is a changing mental condition among workers. Any factory superintendent, whose age and experience has brought him in contact with three generations of workmen, will tell you of his difficulties in securing or training men to do his work. It is not for lack of intelligence, but rather a matter of indifference to their work, a seemingly "don't care" attitude, with a full assurance that their fellow workmen are fully as indifferent as themselves. Even the apprentices put in their time in a perfunctory manner as if learning were secondary to becoming old enough to draw the wages of a workman.

Yet many of them show a deep interest by studying the technicalities of their work while neglecting the practical, as if to fit themselves for higher positions without fully understanding the needs of the lower. Too nervous for restraint, they would become commanders.

While many ascribe this mental condition—this indifference among workingmen—to labor unions and to reform agitators, yet the reverse is true; labor unions and reform agitators are the result of this growing mental condition, which is evidenced by the fact that the most indifferent of the working classes do not affiliate with the unions nor follow the agitators, being too much discouraged

for a revival of spirit. Labor unions are not the vanguard of an advancing army; they are a rear guard covering the retreat; and while they have held some positions of vantage and gained some skirmishes, yet in every pitched battle they have lost more than they have gained.

The real Labor-Capital war began between 1870 and 1880, when land value costs in production gained from 6 per cent ratio to a 29 per cent ratio in the manufactured product of the country, while labor fell from a 52 per cent ratio to a 37 per cent ratio, with capital losing in ratio from 42 to 34 as their percentage of the product, as measured on the basis of recognized costs in production. The 23 points gained by land value was a loss to labor and capital and a war came on to see which should stand the loss. The two losing parties have continued to fight each other; yet land value can now absorb 66 per cent of the product which their joint efforts have produced.

While the works of civilization are going forward by leaps and bounds, it is with funds wrung from the masses by the price of the land. While the upper classes are looking forward to still greater achievements and many are rising from the lower ranks by sheer force of personality, the masses are at a standstill in a growing condition of mental depression with an ever increasing number sliding into retrogression.

The ideals and influence of the churches—the inspiration of our earlier efforts—are on the wane.

The ideals and influence of business success have become debauched, while a rising price barrier is repelling home owning and birthrights.

Morals are becoming obsolete and marriage ties useless.

The expanding slums of our great cities are a safer rendezvous for bandits than are mountain caves and ancient ruins. Highway robberies are becoming as common as in the days of Robin Hood, when people were driven from

their homes that a hunting forest might be made for royalty and nobles.

Is civilization in danger?

The question that now looms above all others is that of Cost and Price.

Economically, morality is now more expensive to a family than is crime. A higher standard of morality means a higher cost of living, coming of higher rentals and land values in the better and more moral neighborhoods; while an increase in immorality holds down the costs of living by the laxness and density of a population that can be crowded into decaying tenements.

Cost, therefore, places a premium upon immorality and crime, and changes the civil problem from morality to economics.

In building to a higher civilization we have destroyed every stage upon which we have stood while reaching upward to build higher. The old handicraft of the people is gone. Gone, too, is the old neighborhood capital of our grandsires. The one crowded out the other and the small factory made the neighborhood capital obsolete. Each in turn was an improvement in supplying the needs of an advancing people, and the palatial factories of today are the crowns of industry and the support of civilization. But they must have a market for their products or they must close their doors, call in their salesmen, and discharge their workmen. Their market is the wages of the people—the wages paid out on the factory payrolls.

But the higher royalty costs of raw materials raises the selling price of their products, while rising rentals reduce the ability of the people to buy.

A balanced market is now being maintained only by herding the people and increasing the size of cities so that building construction and municipal bonds may generate wages which can buy products. When herding has reached the limit of population and the growth of cities can no longer

give security for credit consumption, our market for factory products will fail. The failure of the market must result in the suspension of factory activity and of the payrolls, with masses of humanity—far removed from their food supply—without a handicraft that can fashion for their simplest needs. Our civilization has risen higher than any other, and has a greater height from which to fall, without even a handicraft skill to produce and ease the force of the impact.

BOOK III.

Proposed Remedies Considered.

Chapter I.

CRIMINAL OR JUSTIFIABLE.

Criminality has been charged against Big Business Men, but who are the criminals and what is the crime? Every man with a degree of business success is under suspicion, with complaints entered and warrants for arrest demanded—and some issued. Many look upon poverty as a disease, and our economic pharmacy, from soda fountain to store room, is packed with proposed panaceas,—stimulants, opiates, emetics and physics. Some recommend only the gas-water from the soda fountain while others prescribe the most deadly poisons in the prescription case. From the viewpoint of each, all others are incompetents or lunatics. A few are so firmly convinced that the troubles of humanity are inbred, that they propose to take the matter out of the hands of the Creator and improve the breed.

Webster defines 'justice'' as ''the virtue which consists in giving to every one what is his due.'' This definition implies a just concession on the part of some one who might withhold from another something that is morally due. It implies that justice lies in the giving over of something taken, rather than in refraining, or restraint from taking what is due to others. Therefore, if the method and means of the taking can be legalized and justified, ''the virtue which consists in giving to every one what is

his due" can be obviated. To prove that one man has no moral right to certain accumulations of value does not, necessarily, prove that any other man or set of men can present any just claim to the possession and enjoyment of them. Therefore, to take from one, no matter what may be his superabundance, and give to another, no matter how pressing his needs, would not be justice, unless it can be shown to be specifically his due. If it would be abstract justice for capitalists, as a whole, to divide their accumulations with laborers, as a whole, then it would be abstract justice to assess laborers, as a whole, in order to make good the losses of those capitalists who have lost their all in efforts to make a living margin by employing labor. Living up to and carrying out the terms of production contracts and agreements is the largest measure of justice possible under present economic conditions. The trouble does not lie in the lack of justice in carrying out terms of agreement in production, nor in the unequal distribution of the product; but in the injustice of an economic condition which compels impossible terms in the agreements and forces unequal distribution of products. The economic troubles of today have their origin in the unbalanced costs involved in production, and these costs must regulate the distribution of the product. The greatest of all costs is the first cost, the land value cost, which must be paid or secured before labor can be employed to start the production. The troubles between capital and labor are not quarrels over the profit margins in production; they are contests over the remnants after land value costs have been satisfied with interest-bearing securities.

One good old deacon thanked the Lord for "the chastening afflictions visited upon him." The other old deacon said that he "never thanked the Lord for anything that the devil did."

In the "tariff hearings," before mentioned, Judge Gary, chairman of the finance committee of the United

States Steel Corporation, while being questioned by Champ Clark, then a member of the Ways and Means Committee, expressed himself quite freely and yet guardedly concerning remedial legislation. While the tariff was the subject under discussion, Judge Gary expressed a sentiment that would have been heresy a few years ago. So we will use his own words, in the following somewhat abbreviated form:

> *Mr. Gary.* I think the question should be approached from the other standpoint, as a matter of opinion; that is, I do not think a manufacturer ought to be allowed, on account of tariff laws or anything else, to charge or receive more than a fair return on the value of his property and the amount of business done. I think that is where you ought to start. . . . So I think this tariff question—I speak to you because of your peculiar position, and I am not making any tariff speech—but I think in some way the manufacturer ought to be restricted to fair dealings with the public on the basis I have suggested, without the introduction of tariff laws or anything else that might be very harmful to some of the industries and to the working people. That is my theory. I am speaking as an individual, Mr. Clark.
>
> *Mr. Clark.* Have you any idea how that thing could be accomplished?
>
> *Mr. Gary.* Personally, yes; I have.
>
> *Mr. Clark.* I would like very much to hear it.
>
> *Mr. Gary.* Now, I am binding myself only.
>
> *Mr. Clark.* I understand.
>
> *Mr. Gary.* Publicity and government control.
>
> *Mr. Clark.* What is that?
>
> *Mr. Gary.* Publicity and government control.
>
> *Mr. Clark.* Government control of the railroads and other industries?
>
> *Mr. Gary.* Yes; government control as distinguished from government management. I am not talking about that; I think that would be a failure. But I believe in thorough publicity on

the part of corporations, railroads, and manufacturing concerns, and I believe in the Government having some way of controlling the manufacturer within reasonable bounds. I think this tariff question should be determined at the point where real protection leaves off and opportunity to oppress begins. Our theories must be alike, it seems to me.

Mr. Clark. Just exactly.

Mr. Gary. Therefore is is only a question of figures.

Several years ago, the writer was driving through the country, and on coming to a stream saw a strapping young fellow pumping away in his effort to fill the wagon tank of a threshing engine. It was evidently the first filling of the season, as every season-dried joint seemed thirsty, and the question was ventured whether that was the effect of "local option."

"Looks that way," he answered, "but I reckon she'll swell up and hold after awhile."

After watching his deliberate pumping until he was evidently getting nervous, another remark was ventured: "Excuse me for mentioning it, but it really looks as if it would take a long time to soak up that two inch auger hole in the back end so it will hold water."

Straightening up and with an "all-gone" look on his face he drawled out. "Wa-al—I'll—be—ding—blasted—if that derned plug aint out."

How long he had been pumping is immaterial, but he might have stayed there and pumped until the threshing season was over and frost came and froze up the hole, before he could have filled the tank. The pump was all right and the fellow was working along the right lines toward success, but "the derned plug was out."

At the time of consolidated organization, The United States Steel Corporation had an approximate capitalization of $1,500,000,000, of which about $300,000,000 was manu-

facturing and transportation capital. As this will leave 80 per cent of their capitalization a matter of land value capitalization, and as they have been able to maintain dividends on stock and pay interest on bonds, it must be evident that their output of steel and iron is a matter of 80 per cent land value cost, relative to capital, as compared with the deduction from the census reports of a 65 per cent land value cost in the total manufactured product in 1905. Therefore, if the government should assume control of all manufacturing and transportation capital it would have control over only 20 per cent of the Steel Corporation's capitalization,—a 20 per cent control over the Steel Corporation with a 100 per cent control over the independent manufacturers who must come to the Steel Corporation for their raw and partially finished materials. Manufacturing capital is the "pump" with which we are trying to fill the "tank"; the "auger hole" in the back end is land value, and "the derned plug is out."

If the Steel Corporation is both a holding corporation and an owning coporation, owning the mines in its own right and holding the stock of the subordinated companies comprising the corporation, it could not be a loser in its land holding if its manufacturing capital were passed under government control. And it might be a gainer if government control were to attempt to equalize profit margins on productive capital, since, being divided into managerial departments, its mining departemnts can charge its manufacturing departments such prices for ore and coal as to render profits on its manufacturing capital an impossibility. Nor is this a myth. Each manufacturing unit under control of the Steel Corporation must pay practically the same prices for its material as do the independent manufacturers who buy their supplies from the corporation. Therefore, as the raw material comes at fixed prices to the hands of the manufacturing departmental managers it is up to them to show a profit margin on the capitalization of

their departments. The manufacturing capital of the Steel Corporation is wedged in between the royalty cost of raw materials and the market selling prices, like all other manufacturing capital; and as with all other manufacturing capital, if the royalty of the raw material is advanced they must improve their capital expenditure, raise prices or cut wages if they are to maintain their profit margins.

In view of such combined interests the big "lie" of the old-time traveling man seems almost prophetic:

In the days before the typewriter and telephone one drummer tried to impress upon the other the importance and immensity of the concern he was representing. He said that they saved a barrel of ink every six months by not dotting i's and crossing t's. The other said that the concern he was representing was so large that it required several months to go from the main office back to the shipping department; and that on one occasion, owing to the failure of several large creditors, the front end of the concern was forced into bankruptcy, but before the news got back to the other end there had been such an increase of business that the back end actually pulled the front end out and saved the whole concern.

So with the Steel Corporation; their manufacturing departments may show no margins and some might actually fail, but the back end—the mining departments—will save the whole business. And there are many smaller concerns that have actually failed in business and been pulled out of banktrupty by an increase in land value profits. These, however, are exceptions and not the rule.

Judge Gary suggests "government control as distinguished from government management" of railroads and other industries. Champ Clark agrees with with him. Many others are taking the same view; but, in considering government control, we should first consider the fact that the 'derned plug is

out,'' and that little two per cent and five per cent leaks here and there are as nothing when compared with 65 per cent and 80 per cent leaks at the bung hole of land value,—leaks so large that they seem a force in Nature. Government control seems absolutely necessary, but government control of what?—the ''pump'' or the ''plug?'' How would it be to substitute the word ''landowners'' where Judge Gary used the word ''manufacturers'' when suggesting ''government control?''

The perversity of human nature is such that an income always looks right and just to him who receives it. While an executioner might have no hard feelings towards humanity, yet, if he were paid per capita, he might desire an extension of capital crimes and look upon the abolition of capital punishment as an infringement on his vested rights, it being to him a matter of income only.

And so it is all along the lines of everything we call ''business.'' We do not look closely enough into the nature of what we do to obtain an income. If we can only get the income, it is very easy to adjust our ethics to fit the process; and, if the income fits our needs, even our religion can be so adjusted that we can ''thank the Lord for it, even though the devil does bring it.''

''Government control?'' Yes, since nothing in this line of reform can be brought about except by the government. But what should the government do, and why?

If the constant increase in land values is a good thing, we are certainly getting the full benefit; if a bad thing, it should be considered separate from and in comparison with other things—good or bad. We have classed capital and labor as mutual antagonists, and in doing so we have allowed land value to be classed with capital. Many times the quarrels between neighbors, whose natures are genial and whose interests are mutual, result from the acts of a dog. Both capital and labor have appealed to government at times to adjust their quarrels; if the government has the

right to settle the quarrels between capital and labor, why has it not the right to so control land values that capital and labor will have no reason to quarrel? If the government has the right to prescribe and enforce laws and rules regulating factory hours and air space per employee, why has it not the right to prescribe and regulate the air space in homes per member of families—and the cost? If the government has the right to step in and set the limit on what may be collected as interest on deferred payments in strictly private deals, why has it not the right to step in and fix the price on the greatest of all causes of deferred payments—the royalties on raw material and the selling price of land?

The manufacturer goes carefully over his cost estimate and strikes his balance; it is crowding the selling price, which is now at the market limit. He goes over it again, soberly looking at the higher cost of the necessary material as a force in Nature; frowning at the freight rate and wondering when the Commerce Commission will reduce it; looking again at the wage estimate and jabbing his pencil into it as the one cost coming within his reach,—not that he desires to be unjust to his employees, but that self preservation is the first law of Nature and to take out of labor all that land value takes out of him seems necessary to his business success.

The workingman is informed by his landlord that after the first of April the rent will be twelve dollars. He is now paying $10; when he moved into the little cottage he was to pay only $8, and the front room and kitchen were to be papered as soon as the paperhanger could get time to do it. It still is the same old house, the papering is not done yet, the paint is scaling off, the roof is beginning to leak, yet the rent goes up 50 per cent. This means forty-eight dollars more in rent for a depreciating house; a suit of clothes for himself and shoes for the family have been lost on account of higher rents, while higher priced

increase—necessary in sustaining life—co-operation and profit-sharing are very complex. The necessary cost of taking over and assuming the value and risk in handling and selling the products of the farmer and manufacturer must be borne by those engaged in commerce. The products are not complete until these costs are covered in the selling price. Therefore, the merchant who "borrows money" (commercial accommodation) receives the co-operative assistance of a "silent partner" who, by a nominal fixed sum, receives payment for a recognized service in furthering products to their ultimate object. The principle involved in dividing the increase is the same whether the mercantile house of A. Z. Smith borrows assistance of Z. A. Jones and pays for the assistance out of the added price due to necessary cost, or whether a partnership is formed between Smith and Jones and they divide the profits of the mercantile house of Smith & Jones, *pro rata,* according to capital invested and services rendered.

Borrowed assistance in evolving or furthering productive increase can not be construed as speculation, from the viewpoint of either the borrower or the lender. The natural law of increase and the human necessity for the increase bars the element of speculation from any act of investment necessary in evolving or furthering productive increase. Therefore, the certainty of the effect of feeding corn to lean steers, and the certainty of the market demand for good beef removes every element of speculation from feeding corn to lean steers, whether the farmer who raised the corn borrowed money and bought steers to feed or whether the men who raised the steers borrowed money and bought corn to feed the steers. In either case, it would be furthering productive increase, and fat steers being an economic increase over corn and lean steers, it would no more constitute speculation to borrow money and buy steers to be fed, or buy corn to feed the steers, than for the corn-raiser and the stock-raiser to borrow

money to pay the wages of farm hands and cowboys. The manufacturer is not called a speculator when he makes arrangements for the necessary bank accommodation that takes care of his supply of raw material and his pay roll, pending the returns on his shipments of finished products. If it would constitute speculation for a farmer who had raised a large corn crop to borrow money and buy lean steers that he might market his corn in the form of beeves, then it would be speculation to buy lean steers with money which he had saved from former crop sales. And if buying and fattening lean steers would constitute speculation, then feeding corn which a farmer had grown to steers which he had raised would also be speculation, since he might sell both the corn and the steers and let some other men handle the risk involved in the feeding.

To come to any definite understanding and purpose, there must be a line clearly drawn between *economic interest* coming of productive increase, and *marginal profits* resulting from price variations. There must be a distinction made between the profits of those who render an increase of material values for all they receive and the profits of those who gain only when others lose.

Speculation, in the full sense of its use and operation, is nothing more nor less than betting on *prices* without assisting in any appreciable way in bringing into being or form the *values* which may vary in price and render a marginal profit possible. Profitable speculation in grain, cotton and stocks is based on the demonstrated theory that "a sucker is born every minute," and operated on the principle that where the millions lose in small amounts the loss will rest lightly on each and be very profitable to the few who win. But there are degrees in speculation, both in the process and in the general results—good or bad; and, strange as it may seem, the species of speculation which are most commonly and vociferously condemned

have the least effect on the general economic condition, and may even show some general benefit.

Production being a credit process, it must be evident that the wheat and cotton growers are feeling the strain of long months of outlay before their matured crops are ready for the threshers and the gins. Theirs is a long-time credit deal, and usually handled on a very small working capital compared with the length of time and the volume of output. At the end of their productive season they find themselves with a full year's world supply on their hands, while those who will need this supply want it in driblets extending over the twelve months. Those who consume the wheat and cotton have pay-days every week or every month, and remark that "the farmer sells for cash"; yet the growers of wheat and cotton have but one pay-day each year. Having produced and carried a world's supply for one year, the credit burden must be unloaded, and no one else is willing to stock up for a full year unless at a good margin of profit.

Now, on the principle that investments must have a margin for risk, wastage and profits, and as wheat and cotton shrink in weight in time holdings, it must be admitted that their prices should be advanced in a certain ratio from the gathering of one crop to the maturing of another.

To expect a man to pay a farmer $1 per bushel for wheat, hold it ten months, pay storage and stand shrinkage and then sell it at one dollar is beyond reason. Yet that is frequently the case. And, it should be observed, that while these staple crops are continually varying a few points in price, and at times are forced far up or down, yet the general price varies but little for the year, either with the grower or to the consumer. With the harvest-time estimate of the crop the general price for the year is fairly fixed, and with the exceptions of occasional "corners," which are short lived and usually local, the

prices rarely vary unless unlooked for catastrophes occur. As between the growers of these staple crops, whose credit limit is reached at threshing and ginning, and the mill-owners, whose credit would be strained if they were to lay in a full year's stock, were it not for speculative margins there would be much greater price variation between the beginning and the end of the crop year than now. The possibility of these price variations offers speculative inducements to outside capital; not an inducement to speculate in the natural increase of the prices between threshing and ginning and the maturing of the following crops, for that would be merchandising, but an inducement to speculate in the temporary margins which have no effect upon general prices that consumers pay and producers receive. In principle, the object of these speculative investments in staple crop products is not to obtain a commercial profit as dealers, but to offer an opportunity for half-baked and over-baked individuals to gamble on the price margins which are but distantly related to general buying and selling prices in actual business. In principle, the profit margins of the speculator are the losses of the speculatee, it being a game of fight wherein sharks swallow suckers with an occasional corner. These speculative margins have about as much effect upon general prices as football games have on education. The effect falls upon those who have a financial interest in which goal, high or low, will be kicked—and upon those who get bruised. But, to promote this speculative gambling, large money investments must be made in these staple crop products with the effect of relieving the credit strain on the farmer and planter without throwing it entirely upon those whose profits are largely in converting raw material into finished products. These speculative investments have the effect of holding up prices at the opening of the crop season and of holding them down in the last months before the next crop season.

The economic conditions existing in the stock market differ from those of the grain and cotton markets as fixed property differs from merchandise. Stocks being representative of indivisible fractions of specific fixed property, their value depends upon the value of the property and the number of shares issued against it; therefore, the owner of railroad stock can not demand and have measured off a certain number of running feet of road bed and become the sole owner, as can the investor in grain or cotton demand and receive a certain number of bushels or pounds of what he has purchased. Unlike grain and cotton investments, stocks represent fixed property which is adjusted to fixed or slowly changing conditions so that its value can be known or its variations closely estimated; and, being fixed in its nature, frequent offering of the stock for sale does not in any way add to the quantity of the property nor to its efficiency. If the stock of new enterprises only were offered on the stock market, and the commencement and development of these new enterprises depended upon the sale of their stock, then the economic condition and effects of stock speculation would be similar to grain and cotton speculation. But this is by no means the case. Bringing money into the stock market for gambling purposes does *not* bring money to the construction or support of the properties on which the stock is based, while the lure of the speculative margin does actually withdraw and withold money from productive investments which could be a benefit to both the investor and the general public.

Thus, while the moral aspect and perversive effects of gambling are the same in the grain and cotton markets as in the stock markets, yet the economic effects are very different. One brings funds to the support of fundamental commerce and acts as a regulator of prices; the other diverts funds from productive increase without ap-

preciably benefiting the basic property represented of those who hold the same stock for dividend incomes.

But speculation in staple crops and in stocks is relatively small when compared with speculation in land values. Even stocks are principally of land values, since the physical value—the cost—of nearly all railroads and operating mines have been provided for by bond issues, thus leaving the franchise and mineral deposits subject to the bonds but represented in and by the value of the stocks. In some instances the face of the bonds is far in excess of the physical or capital value and, therefore, is dependent on the land value of the franchise and the natural resources covered by the mortgage securing the bonds. Taking this into consideration, a careful estimate would undoubtedly prove that fully 90 per cent of all speculation is based upon land values, even though the medium be stocks and bonds. And when we consider that nearly all side investments of business men are either in stocks based on franchises or in vacant lands, and that the inducement in owning renting properties lies largely in the prospective rise in the sites, it must be admitted that a 90 per cent estimate is not too large to cover land value speculation.

So we find three distinct lines of speculation; two are condemned, one is approved. The speculation in staple crops, which brings funds to the support of a fundamental commerce, is equally condemned with speculation in stocks, which detracts funds from commerce. They are condemned on moral grounds as gambling, since—generating no material increase—the "marginal" profits which some may gain must be lost by others. Yet land value speculation, which has doubled the cost of living and cut the wage margin to labor and the interest margin to productive capital, is so highly approved as to be fit investment for college and church funds.

Mr. Morrow's next question to the successful business man was: "Can marginal speculation be prevented?" And the answer was:

"No; nor should it be. If outlawed in Wall Street, logically, it would have to be outlawed elsewhere. A man, then, could not pay $1,000 in cash for a $2,000 lot, giving a mortgage for the balance in the expectation that he could sell the lot some time for $2,500. Wall Street speculation, primarily, is like all other kinds of speculation. The trouble is that sensible men in the ordinary affairs of life become lunatics when they try it. They set aside the common laws of business in their craze to get rich in a hurry. A paltry profit of 15 per cent a year does not satisfy them. They buy like madmen, being sure in their own minds of from 100 to 500 per cent in a week or two, and the wise old boys who are waiting for them walk off with their money."

As the "successful" gentleman just quoted, says, Wall Street speculation is like all other speculation, in so far as the nature of the profits are concerned. In drawing a distinct line between what is speculative and what is constructive, all marginal profits on all speculation are a loss to those who pay the margins—and often the loss to one is proportionately far in excess of the gain to the other. In the very nature of things, where there is no increase of material substance which can be put to valuable use, there can be no margin of profit without a corresponding margin of loss. Therefore, there is a vast difference between a profit which comes from the use of land and a marginal profit coming from holding it out of use. One is a *gain to use;* the other, a *loss to use.*

The screen through which moralists sift sociological and economic questions has meshes of such pecular form and size that most of what appears to be refined can pass through, while that which is gross in outward appearance will be rejected—even though of the same nature or a little better. Therefore, it is useless to consider the right and wrong of any species of speculation, since some kinds are approved and some condemned on moral grounds;

but, as justice is not always moral in some of its most just acts, it might be well to consider if it would be any strain on justice to extend it in principle to prevent the *unjust taking,* and thus be more than merely "the virtue which consists in *giving* to every one what is his due."

CHAPTER II.

GOVERNMENT CONTROL.

A great leader in the business world suggests Government Control, and a great leader in Congress agrees with him. They are not of the same partisan political faith, and in tariff and currency legislation it might be impossible for them to agree, but they do agree that the government should have some measure of control where coerced profits are possible.

In a measure, we now have government control—national or state—over freight and passenger rates, but none over the capitlization which demands dividends from these rates. While there is a partial government control over railroad bond issues, there is no control over the expenditure of the money nor any after-consideration given to seeing whether the funds are used to promote improvements or to depress the value of stocks and shift net earnings from the credit to the debit column and make it appear that higher rates were necessary to meet running expenses.

A Grange had under discussion the advisability and justice of exempting from taxation that portion of farm values covered by mortgages. Their argument was that to tax a man on what he owes as well as on what he owns is an injustice. One old farmer, whose broad acres were free from incumbrance, said that such a law would just suit him, and if in force he would organize himself into a syndicate and mortgage his farm to it for all the farm was worth and hide the syndicate in some city in another state and swear off all of his taxes. If an old farmer

could put a just (?) law to such convenient use, we should not be surprised if a shrewd financier happened to bond some of his property to himself and thus reduce his net (?) earnings by what was paid to himself in interest on his bonds. In this he would not be under government control, since there is no physical valuation estimate made on his property.

In most of our states we have state government control of interest rates on both bank and mortgage loans, but so far as can be learned no bill has ever been introduced to limit rents, royalties, timber stumpage or the price of lands. The government discriminates in import duties so that foreign and home costs in production may be equalized in the selling price, but it takes no notice of the nature of the costs which must be covered in the prices of the foreign and home products. Government control of certain products through a strained use of interstate commerce laws has been seriously recommended, and now we find a serious suggestion from a prominent manufacturer that we should resort to government control of manufacturing in order that prices shall not exceed fair marginal profits. This suggestion coming from a great manufacturer should be given careful consideration by all fair-minded men engaged in manufacturing; but, in this consideration, it might be well to consider whether government control should regulate manufacturing profits or manufacturing *costs.*

From the earlier days of settlements along the lower Mississippi, the engineering problem to control floods has been how to build "mud banks" that would best withstand the wash of high waters as the melting snows of great mountain ranges swelled the spring-time torrents from vast plains in the lower reaches of the river. The best has proved a failure in a concurrent flood time of the Eastern and Western valleys, but now the flood problem is shifting from the levees on the lower river to dams that

will impound the flood waters in the upper valleys and in the mountain gorges, thus reducing the flow in the spring and early summer and supplying water for midsummer and early fall navigation.

So if government control is advisable—and nothing else can control—it must be applied to the fountain heads of the 65 per cent royalty cost rather than to the 8 per cent margins on manufacturing capital if an equalizing result obtains. We can control high and rising prices only by controlling high and rising costs, and the highest of all costs lies in the very fountain of supply—the privilege of controlling the resources of Nature.

The great error in the study of applied political economy lies in giving too much attention to prices and profits and overlooking the nature of privileges and costs. All profits are costs levied and collected. Prices are governed by costs, while determining costs is the prerogative of King Privilege. Government control, to be effective, must be applied to costs instead of profits. To attempt to equalize economic conditions by government control of manufacturing profits would be as ineffective as to attempt the control of Mississippi floods by dredging the Gulf so as to make more room for flood waters. Like the humorous verses about the olden-time schoolmaster, to get knowledge into a boy's head "Ye beat ye other end."

It is really surprising that leaders of thought and action fail, as a rule, to make distinctions where Nature has made differences. While they are more than willing to do so in their own personality, as compared with some other, yet they fail to make distinctions between the works of man and the works of Nature. Even Clarence Darrow, than whom few are more able and whom we must not judge too harshly, in an article on the "Closed Shop" in *The American Magazine,* uses these words: "While the wage system lives, there must be an employing class and a laboring class; the one who owns the lands, forests, rail-

roads, factories and mills—all the implements of production; and the other, the laborer who must apply his labor to these raw materials for the production of wealth." Further on in the same article he says: "Surface thinkers are always condemning and classing as demagogues those who say there is a conflict between capital and labor."

It should be observed that in the forepart of the first sentence Mr. Darrow classes lands and forests as "implements of production" along with railroads, factories and mills, and in the last part of the sentence he classes railroads, factories and mills as "raw materials" along with lands and forests; then, in the last sentence, he protects himself from those who may not agree with him by calling them "surface thinkers."

Undoubtedly, Mr. Darrow has studied deeply into economic effects, and if he has mistaken effects for causes he is no more to be blamed than those manufacturers who have looked upon rising values of raw materials as a force in Nature and upon the demands of labor as a menace to their waning profit margins. That "there is a conflict between capital and labor" is too evident for denial by any one familiar with producing conditions; but that it is a family conflict should also be evident; as much so as if between husband and wife to determine whether the limited means of the family shall be used by the husband in buying a new overcoat with pockets for his whiskey bottle and tobacco, or be spent by the wife for a new hat and coat so she can attend the picture shows and the opera. The real trouble does not lie in conflicting interests, but in the smallness of what is to be divided. Had the family a fund large enough to pay for the overcoat for the husband and also for the hat and coat for the wife, there would be no conflict over what each should have nor any slurs about tobacco and picture shows. And so with capital and labor, constituting productive force; it is im-

possible to pay 66 per cent of the selling price of the product for the privilege of producing and then divide the 34 per cent margin so that combined capital and labor can buy the whole product. The conflict is not a conflict of interests, it is a conflict over a common interest which is too small to be satisfactorily divided. And, strange as it may seem, labor troubles are more acute and frequent with that capital which is only incidental to land value development—that is, production of crude raw materials—than with manufacturing capital which turns out the ultimate product. But, it should be observed, such capital as is employed in producing raw materials is more closely wedged between royalty prices and selling prices than is that employed in ultimate manufacturing, since the only adjustment in land value royalties is expansion, thus leaving capital and labor subject to market fluctuations. The royalty investment being the main object, and separate from the capital investment, acts as a ratchet in taking up slack in a rising market and holding it so that the compression of lower prices falls on labor and the producing capital. Such capital, being incidental to the royalties, has margins based on commercial interest and has practically no elasticity, since any advance in market prices will be absorbed by higher royalties rather than in increased margins to capital, thus leaving the pressure of fluctuating prices to fall on wages. Royalties being the fixed quantity, only changing to advance with higher prices, and capital margins being at the lowest point of commercial interest, it must be evident that a labor strike for higher wages is a strike against the consuming public for higher prices, since, with royalties absolutely rigid and the producing capital on a 6 per cent basis, a 10 per cent advance in wages can come only with an advance in selling prices. And, it must be observed, the higher prices can obtain only after the strike has depleted the supply and increased the demand until higher prices are forced by the

shortage, then a slight advance may be made to labor, but always accompanied by an advance in royalties. The shortage forces the higher price level upon the dealers and they retaliate upon the ultimate consumers. The higher price level being thus established, between the recognized usual margins of dealers, the new wage scale to labor and the usual margin to producing capital,—between these on the one hand and the royalty price on the other—we find an eased condition which allows royalties to advance and absorb all apparent benefits gained by labor. And in this, it should be observed, the royalties have not forced the advance; this comes by consumers bidding against each other to secure their needs during the shortage, but when the new price level is reached it is easy for royalties to assume all between the old and new price level, since there is a strong prejudice against larger commercial margins but none against higher royalties. In fact, land values in all forms are so completely overlooked by the great majority of people that they blame manufacturing capital for all the economic ills resulting from higher prices.

Now, were we to agree with Judge Gary and Champ Clark concerning the justice and necessity for government control, the question arises: should government control be applied to manufacturing and commercial capital, or to land values and land value royalties? To apply government control to manufacturing capital would result in a control of 8 per cent of what constitutes wholesale prices. A government control of land values and natural resources would be a control over what constitutes 65 per cent of wholesale prices—a control over rents and transportation franchises.

But before considering any proposed methods of government control, it might be well to consider who receives benefits from land values and how their interests would be affected by such control.

In looking over the field of productive industry, we find that land is the basis of everything that is human, and that in all civilized countries it is practically all held in private ownership or private corporate ownership. That is, the desirable lands of the earth are practically owned and controlled by private titles, free lands having dwindled to a minimum. In this ownership there can be found six distinct purposes in holding titles:

> First, farm owning, with the home on the farm, that sustenance may be developed by labor and farming capital applied direct to the land.
>
> Second, possession of sites suitable for homes, factories, store buildings and offices, owned and used by those engaged in other ways than farming.
>
> Third, possession of sites suitable for farms, homes factories, store buildings and offices, owned and developed by those who invest capital in buildings and general improvements with the purpose of leasing and renting for use to those who have not sufficient capital to own what they need.
>
> Fourth, possession of such natural resources as mines and forests, from which necessary supplies are being taken by employing capital and labor.
>
> Fifth, possession of sites and franchise of rights-of-way for the purpose of transporting individuals and products as commercial needs may require.
>
> Sixth, possession of sites and natural resources for the purpose of speculation.

These six purposes may all be combined in one ownership and on one tract of land, but that will not change the nature of the purpose of its use nor that for which it

is held out of use. But, in considering land value and the benefit the owner derives from its selling price, the land and its value must be separated, in the mind, from the value of any and all improvements,—the improvements, if of any value, being capital.

The selling price of land is of no benefit whatever to the owner who holds it for use only. Land being the source, directly or indirectly, of all employment, the real value of land lies in its use and the owner of land who puts it to use has an advantage over the non-owner only in the measure of the benefits coming from its use. Thus, land values being relative, what the using owner may receive from the sale of his land only equals what we must pay for the purchase or use of what he must buy or rent. All being relatively equal, if he sells at a high price he must buy at a high price; if at a low price, he can buy at a low price; one always balances the other. If there is any advantage gained in the selling and buying, it will be in the purpose of the holding for use, rather than in either price.

Nature making the use of land compulsory, if a man sells what he is using, he must buy again or rent what he needs must use. Relatively, if he sells at XX he must pay XX when he buys or rents; if at XXXX then he must pay XXXX. It is like wages of $1 per day for labor and butter at 10 cents per pound, or $10 per day for labor and $1 per pound for butter. All that is gained by high prices is lost to high costs when the using owner of land is considered. Even the using owners of land may be losers through its higher price by an increase of their expenses or the higher necessary price of what they produce from the land.

The rising price of the land on which the city home may stand attracts higher tax assessments without adding to the home comforts, while the higher price of farm lands calls for higher priced products to pay margins on the

higher capitalization, thus making the market more stringent among those who are paying higher rents. The products of the farm at prices that pay a margin on higher priced farm lands must exchange in cities for factory products made higher in price by higher royalties on raw materials and higher wages necessitated by higher rents and higher priced products. Therefore, there is no relative gain to the working farm owner, since what he gains in margins on his high priced land he loses in costs made greater by other high priced lands.

With the man who may own and possess land for the purpose of development by buildings and other improvements with the intent of deriving a marginal income on investment by renting to those whose means or convenience makes renting necessary or desirable, the selling price of land is more an object than with home owners and farmers. While any increase in his rental receipts would be an increase in his income, yet the same condition which enabled him to raise rents would also increase his living expenses. But an increase in the selling price of his lands would render them more available as sites for larger capital investment in the shape of better buildings which would increase his income,—income resulting from better use as well as from higher prices. Yet, to a man who would buy land for such purpose, the price would reduce what he had to invest in the building by the amount he must pay for the land, thus reducing his building investment and increasing rentals by the margin necessitated by the land costs.

The ownership, possession and use of such natural resources as mines and forests have an economic effect very different from that of farms, homes and renting properties. Their use, being in the nature of depletion, necessitates owning and holding far in excess of present needs for use. While mining is use in a full economic sense, yet the present needs which the use of mines supply is lim-

ited, while the supply is, in a sense, unlimited. Therefore, to own and possess the mines compels a unit valuation on all in sight and a capitalization of each unit according to average value, regardless of whether it will be needed this year or fifty years hence. So if a ton of iron ore of a certain grade is capitalized at $1, then all iron ore in sight must be standardized and capitalized on a $1 per ton basis, regardless of what future time it will be mined and used for commercial purpose. To own less than a supply for a series of years would not attract capital for development; not to capitalize and own would leave any given supply open to another set of capitalists after the first set had been to the expense of proving its value. And if the ton to be mined today is worth $1 royalty, then its associate ton which will be mined fifty years hence is worth the same,—and should be so assessed for taxation under our present tax system.

To argue this natural tendency of mines toward capitalization is idle, since they *are* capitalized with their value represented by stocks and bonds sold and on the market. While the economic purpose of mine capitalization is not primarily speculation, but rather the securing of a supply of raw material for manufacturing purpose, yet, owing to the fact that the present and future supply is equally capitalized, it resolves itself into an idle investment depending for a margin on very high present prices or a gradual advance to future higher prices.

Thus we find our leading manufacturing industry carrying the dead weight investment of a fifty years supply of raw material; carrying this investment as a live asset calling for economic interest on its cost in the same ratio as does the finished product just turned over from the mill to the shipping department. The capitalized future supply of oil, gas, and timber are of the same economic nature and effect. Nature being a self contained unit, it is but natural that all resources in Nature should tend toward

centralized consolidation and capitalization. All that is necessary is a system, and this comes by evolution; with the evolution of system, the consolidation of natural resources is as natural as molecular attraction. This is the foundation and natural development of "Big Business."

Ownership and use of transportation franchises and sites combines speculation with utility to a greater extent than is the case with owning and holding such natural resources as mines and forests. In mining and lumbering, the utility operation is applied to only a small portion of the holdings, while in transportation the entire franchise and terminal holdings are put to use. If there are any holdings which are not put to use in transportation, they are wholly speculative because they are superficial to transportation, while in mining and lumbering a reserve holding is necessary to insure a supply for continuous use. The necessary holdings of mineral lands and forests compels an idle investment which, at simple interest, compels a present price much above present labor cost, or an ever-increasing price to cover the accumulating interest cost. Holdings for transportation being entirely in use, have a value which is expressed in net earnings coming from use. Therefore, present value being known, speculation can obtain by capitalizing the future estimated increase in earnings, and the stock and bond issues against future earnings will so increase overhead expenses as to make it appear that higher rates are necessary to meet running expenses. This has been termed "watering stocks," but is of the same nature in cause and effect as an increase in rents or increased prices on vacant lots. It is simply an increase in the land value of franchises and terminals, but is expressed in an increased volume of stocks and bonds instead of an increased volume of dollars. The object in each instance is to obtain something for nothing, which can only be done by increasing the costs of production and the price of all products. So we must make a clear distinction

between margins which come from the use of land and those which come from higher land values.

Ownership and possession of land solely or partially for speculation is very different in economic effect, and in social effect, from ownership and possession for home and farm purposes. Like all real speculation, what one gains others must lose. Land owning is a privilege, a franchise, granted by the functions of government, and in selling it is not the land which is transferred, it is the privilege. In its nature, the profit margin on land is unlike the profit margin on anything in commerce. Land, antedating man, has no human cost; being stationary, it can not involve transportation; not being a product and not being consumable, it can not enter commerce; not beginning with incentive and never reaching ultimate consumption, it has no human process of evolution; not being ephemeral and not being followed by a new supply, it does not change with fashions nor deteriorate in storage; not being procreative there can never be any more than now. Therefore, by the law of supply and demand, the price must change with the supply of population and not with the supply of land; generating nothing in non-use, all land profit margins can only be of increased price and paid from products foreign to itself; having no human cost, no factory cost, no transportation cost, no mercantile cost, its selling price is foreign to all productive and commercial finance. It therefore alienates funds generated by production and commerce, so as to leave an unbalanced exchange in products and money.

Land speculation, in a business sense and in business relations, is parasitical in its nature and in its profit margins. It produces nothing from which to draw margins, but depends absolutely upon the productive industry of others to make the improvements and provide the employment which draws population and adds to land prices. While it is the forefront of public enthusiasm in booming

the town, it protests against taxation in proportion to benefits and only spends money for advertising. While it stands ever ready to donate a factory site that a new industry may double the price of its vacant lots, yet park grounds, school grounds and church sites must be paid for, since they follow instead of inducing the increase in population which brings higher land value. Land speculation is not only a parasite on productive industry, but whatever it may gain in profit margins must be lost by industry in higher priced homes and rents to working men, higher costs to manufacturing, and in a reduction of the ability of the masses to buy of the products which generate their wages. While land speculation has the moral support of public sentiment, yet to pay its profit margins results in such poverty as to shock moralists. As these speculative margins can only be realized by higher prices, it must be evident that, if such realization continues all industry must be sacrificed to pay the price and the masses of humanity must be pauperized for lack of an industry to give them employment. Even after taking all the cream and clabbering the milk of industry, it will have nothing to offer in charity, since itself depends upon the charity of public sentiment in supporting its privilege to collect a price without giving anything in return. Growing upon industry, and growing faster than does industry, it must fail when the increase of pauperism fails to pay its last price margin.

Yet, as a whole, land speculation is unprofitable when measured by the average returns to industry. Being non-productive, it must draw all profit margins from industry and, therefore, can command a margin only when industry has developed a margin above sustenance. Being non-productive, the speculative profit margin must be of an increased price, and the increase must be progressive to maintain a margin. The fact that a man may sell a plat of land for double what it cost him a number of

years ago does not prove it to be a profitable investment, since, taxes considered, he might have received a larger margin on his investment had he deposited the price of the land in a bank and received ordinary bank interest as his profit margin. As to the argument of "greater security" of land as a time investment, it is only necessary to say in answer that practically all bank failures result from the failure of land speculation to realize a margin. While the bank does not invest its funds directly in the land speculation, it does loan heavily to those who are "promoting" a "sure thing." With land speculation non-productive within itself and depending wholly upon industry to develop its profit margin, and since something can never come out of nothing, it must be evident that the margin of speculation comes out of industry and is a loss to industry,—even though the industry is promoting the speculation.

The principle involved in the profit and loss attending speculative margins does not change with a change in the associated personnel. A manufacturer may secure a tract of low-priced land in a non-fertile, outlying district, and by the construction of a new factory and the gathering of a population attracted by the prospect of wages, add greatly to the selling price of the land not covered by the factory and yards. His title to the surrounding lands acts as a net in catching the value which radiates from his factory. As land speculator, he is gaining by the margin on his land what he is losing on the industry of his factory, and which would have gone to other land speculators, had he built his factory on a donated site in the suburbs of the city. And he also gains from his working force through the added price of the land a part of what he is paying them in wages; but this gain is not so real, since it reduces their ability to buy of his products, thus checking the volume of production, which is the base of all the profit margins. Yet what he takes from his working force by the

land margin is only what other speculators would have received, had it not come to him. The system would have taken it, but he has the greater right to it by rendering it possible.

This is but an economic analysis—and not an arraignment—of land speculation. Land speculation is of such long standing that it has become institutional, and of such respectable association as to render manufacturing and commerce plebeian in comparison. That it does nothing for what it receives, places it in the highest rank of aristocracy—even above gambling. That it compels poverty and is regarded as a "high class investment" above such personal supervision as is necessary in productive business, tends to create a superior social rank. To abolish land speculation would be to banish the fascinating allurements of chance and reduce productive business to the uninteresting level of certainty, while political campaigns would be deprived of their most interesting issues. Settlement workers and sociological students would be forced from the center of the stage, and Charity—the greatest of the Graces—would be lost to the world in her retirement to the Elysian Fields; while occupants of pulpits would be deprived of sensational subjects for their sermons and be limited mostly to preaching the Kingdom of God. As it would be unnecessary then to preach of a better life, they could preach Eternal Life.

What a prosaic world it would be, robbed of the poetry of "high society" and deprived of the lessons taught by poverty! No threatening panics, no labor troubles, no business excitement! With all the necessaries and comforts of life assured to all, would life be worth the living?

CHAPTER III.

MEASURES OF CONTROL.

Any measure of government control must be gauged by the nature of what is to be controlled and the degree of control desired for the best economic results. The paramount question is to determine what should be controlled, the measure of control being of secondary consideration. To control prices and profits would be idle, since prices may be very high and profits very low. A manufacturer may have advanced his selling prices without any advance in wages and thus brought on a strike among his workmen. To attempt the control of his prices or his wage scale would be useless if the cost of his raw material were left out of consideration. His prices must cover his costs and, if anything shall become subject to government control, it should be costs instead of profits, since profits are the incentive to production and to the employment of labor. The "tools of production," of which we hear so much, are as nothing when compared in importance with raw materials. The control of the tools may mean the control of the workmen, but the control of the raw materials means the control of the tools, the workmen, the wages, the prices and the profits,—and it can come only through the controlling of costs. So, if there is to be any measure of government control that shall be effective, it must be applied to costs and in the most direct manner.

In considering government control of costs, it may be well to again consider the fundamental elements of costs. In the last analysis, these are but two—human cost and land cost; one being productive in its nature, the other

being obstructive in its effects. Human cost is divided by common thought and expression into two parts—labor and capital; labor being the primary application of human effort, and capital the secondary—or that portion of the products of labor designed to assist labor in production. While writers on political economy disagree concerning just what should be classed as capital, it is all immaterial so long as it is recognized as human cost in distinction from land cost. Land cost affects only the price cost of capital and not the material substance. Land cost is also divided into two parts—cost of sites and cost of royalties; the first is the cost of ownership or occupancy paid in purchase or rental price, the second is the price over and above labor and capital costs (human costs) which must be paid for raw materials and products taken from the land. While human cost is the life of production, land cost dominates the product and its price by its ability to control the source of supply.

Since land costs dominate human costs, government control of land costs will result in government control of all costs. But the ultimate effect of government control will depend upon whether human costs or land costs constitute the government.

In this connection, a very general idea concerning efficiency and waste might be pertinent. In an article written by Louis D. Brandeis for general publication in November, 1912, we read: "This matter of efficiency offers the most direct solution of the high cost of living problem. . . . Between what we do and what we are capable of doing, there is a difference of 100 per cent."

The best measure of the effects of future increasing efficiency is the effects of the past increase in efficiency. As compared with our efficiency in 1876, we have gained about 100 per cent and fairly doubled our cost of living. At that ratio, what degree of efficiency would render the cost of living impossible to the masses?

The more efficient we make labor, the more efficient and labor saving we make capital, the higher will be the price of the land which labor must use for living needs, and the higher will be the price of the land from which capital must draw its raw material. While greater efficiency in the application of labor and capital, and greater economy in the use of natural resources, are due to Nature and to coming generations, yet every gain made in greater efficiency and every invention assisting labor economy have resulted only in all net gain being absorbed by higher land costs.

While labor lost steadily between 1870 and 1898, when measured by the increasing volume of products, yet it gained materially in its ability to buy a given quantity of products. During this period, inventive genius was developing efficiency and economy, and land value was hauling in the slack between old method costs and new method costs; but with the promotion of higher capitalization in land values between 1898 and 1906, the costs of production have been so increased that since 1908 labor has lost both relative to the volume of products and in the quantity which its wages can buy. During four good years of more than average prosperity, labor has lost in its ability to buy of what it is assisting to produce, both relative to volume produced and in actual quantity, and during the same years it has been confronted by rising rental costs. In whatever manner it may be measured relative to production, the ability of both capital and labor to buy of their own products has declined; they have passed their zenith and are in the descendent while that force which is absorbing what they produce is in the ascendant. Their very efficiency, coupled with their avidity, has been their undoing. The unreasonable and untenable principle that investments, whether productive or non-productive in their nature, were entitled to profit margins has allowed land speculation to absorb all natural resources and thus cut

off capital and labor from their source of supply and absorb all their profit margins by the rising costs of raw material. And how otherwise can a profit margin come on land speculation?

Only government control can deal effectually and justly with the present economic situation. But, as some have an inherent dread of a "paternal government," it would be well if such should study and define a difference in the degree of paternalism when the power of government is invoked to control that which it has permitted, and when it is invoked to protect an interest and collect a profit margin where no benefit has been rendered. It may be well to remind such pepole that "paternalism" or "maternalism" in government is entirely unnecessary in controlling basic costs, and that they need have no fear that Mother Earth will turn suffragette and free herself from "tyrant man" that she may devote more of her benefits to her helpless children.

Government control of natural resources can not be considered from the viewpoint of individual inherent rights to what Nature has made compulsory to sustenance, since such rights have no recognition either in national or state constitutions or laws. Unrestricted and unlimited personal privilege in acquiring property, whether for use or speculation, was given preference over inherent rights by the founders of our government; then with rigid laws defining and protecting property rights it was only a matter of time and acquirement of property in natural resources until inherent rights existed only in the troubled minds of agitators. Under our laws, human beings have no inherent right either to live or to die, their inherent rights being limited to an unrestricted privilege to acquire, to the exclusive use of property rights in natural resources, and to the rights of burial when death can not be prevented. So, when the unrestricted privilege to acquire property rights in natural resources has reached the limit of these

resources—not the limit of the privilege—then those who have failed, or are yet too young, to acquire such property rights are as devoid of effective inherent rights as are desert wastes of fruits and grain. Their inherent rights to the resources of Nature are negatived by the positiveness of unlimited and law-protected privileged rights. While they have the inherent right to be born naked, it is unlawful to remain naked, yet they have no inherent right to obtain clothing which can not be negatived by a denial of the opportunity to earn clothing. While they have the inherent right to be without food, they have no legal or spiritual right to a painless death by suicide when denied the opportunity to earn food. Under our constitutions and laws the legal status of inherent rights is as incongruous as those court rulings which decide important cases on the technicalities of the proceedings rather than on the law and evidence. A man has an inherent right to the privilege of legalized ownership of all natural resources within the jurisdiction of our national constitution; all others have the inherent right to obtain their sustenance from what is left unowned—providing the game, the timber, the minerals and the fruits are not protected by stringent trespass laws, which is generally the case with government reservations. Yet, while the inherent right to the privilege of consolidated ownership of all natural resources has never been legally questioned, the government and several states have passed laws to regulate the marketing of products from resources owned in consolidation.

A man could legally own all natural resources to the exclusion of all others, but he could not legally market the products from these resources, since that would be monopolizing the market. That is one measure of government control.

One way of making a profit out of farming is to sell fodder in the Fall and the hides of starved cattle in Spring.

There are four distinct measures which the government could employ in equalizing costs and distribution of products. And as they have all received more or less attention in economic discussions, their mention should produce no shock to the most sensitive minded individual who now derives a rich living from some exclusive privilege. They are:

> First: Government ownership of all natural resources and all manufacturing and commercial capital, all under government management so that production and wages can be regulated to the needs of all the people.
>
> Second: Government control of product prices, transportation rates, and rentals; all to be regulated so as to allow a fair margin above costs, and so as to encourage production and the employment of labor.
>
> Third: Government ownership (with or without management) of all such natural resources as mines and forests, and all unused lands, so as to regulate privileges and costs in the first stage of production, thus leaving free competition to regulate market prices.
>
> Fourth: Government control through inhibition by the use of taxation, taxation so levied as to inhibit high prices and large margins on land investments made for speculative purposes.

Whether government ownership or supervision, it will be observed that the object is the same in each of the foregoing propositions. This object, while viewed from different angles and given different names, is really the elimination of unnatural costs and exorbitant prices made possible and exacted by special privileges—the elimination of costs and prices made necessary in realizing profit margins on investments which, within themselves, produce nothing from which margins can be paid.

The whole problem concenters in and radiates from privileges, their use and their abuse. In the last analysis, a privilege can be nothing more nor less than an advantage which one or some obtain over others. Were it not an advantage, either in profit margins or special satisfaction, it fails in being a privilege. While the privilege to buy and own land is a common privilege, yet every separate deed conveying a land title is a special privilege specifying a specific lot of land. The privilege of buying and owning a lot or tract of land is, or should be so considered, of the same nature as the general privilege of buying a ticket to a "World-Series" ball game. In each case the "powers that be" sell a privilege to occupy and use a vacant space for profit or pleasure; yet, in the case of the land, a man is privileged to anticipate the needs of others by buying a vast tract of land for which he has no use except for speculation, while in the case of the ball game tickets he is condemned and an effort made to make it criminal when he deals to the same purpose. In one case he is honored in proportion to his profit margins, even though the economic effect be vital in unbalancing commercial exchange and reducing manufacturing profits, while in the other case his act is considered disreputable and government control is called for, yet there can be no lasting economic effect.

The common thought along economic lines would be very amusing, were economic conditions not becoming so serious.

A certain teamster usually left his wagon at the yard. unhitching his horse and allowing him to go unattended to the stable, a few blocks away. One day the animal, with all the dignity of a noble horse, was going to his stable when a big, black dog noticed him. With howls and with all the antics of a panic the dog tried to call everybody's attention to the fact that a horse was loose on the street; himself utterly overlooking the fact that a big dog was

also loose on the street. But that was because of the difference in the privileges given to dogs and allowed to horses.

And so it is with many who are enjoying special privileges. To them, those who have only temporarily purchased privileges are a mob over which there should be a very strict government control; they themselves overlooking the fact that they, the "big dogs," should, of course, be privileged to run loose. Government control must be exercised either over the mob or over the privileges which make the mob,—mob in necessity and in contrast. The guard is made necessary, not to control the mob but to guard the privileges. The home owner needs no guard over his home property, and rarely is the open property of the farmer visited by a sneak thief; but the property of railroads and mines and even forests must be kept under constant surveillance and at times be heavily guarded.

The human contest has ever been over privileges, to obtain them and to defend them. So any measure of government control must be, not to protect privileges from mobs, but to protect mobs from privileges, and thus make the mobs impossible for lack of an incentive.

Of all proposed measures of government control, the "fairest flower to look upon" is government ownership and control of all resources and of all machinery and tools of production and exchange, but in practical application there promises to be one weak point. That will be in the transition from what is to what may be.

In one of Dumas' works, one friend inquires of another concerning a third friend, and is informed that he had been imprisoned in a tower, but had escaped by making a rope out of his blanket and letting himself down from his window.

"What became of him after his escape?" was the next question.

"Nothing. The rope lacked thirty feet of reaching the ground."

While our economic relations are not governed entirely by chance, yet we have no chance in the workings of our economic system. The local supply is always governed by the ability to buy, while the price is governed by costs, mostly paid for privileges. As necessity compels nearly all to be industrious, on starting in life each one must find a crevice in the industrial jam into which he can fit or be wedged. Thus, by filling every available opening, all that shows a profit in the doing thereof becomes done in the full measure to which the general needs will respond with the price. This universal action is not an united action and is, therefore, in no sense that of an "industrial army," since there is no common plan nor supervision. It is each one by himself and for himself, either filling openings or hunting for openings which promise a profit margin according to individual ability. Thus, without any system or common plan, the most intricate economic problem of the largest cities becomes solved automatically by each individual solving his own economic problem. The present condition compels the best effort of each in a disconnected co-operation, but the incentive of each is an individual income for individual needs. While it engenders a deplorable state of selfishness, yet it rounds out an economic condition which runs for years at a stretch without getting very badly out of balance.

To change from this lack of system to the most perfect of systems would require a period of transition during which the most hearty operators would suspend, pending the disposal of their properties. Even though all were in favor of the change and gave it their best efforts, the present individual selfishness would cause an unbalanced condition by each trying to retain or obtain some advantage over others. With the masses on a 24 hour margin of sustenance, with the better classes in our cities on a 30 day margin of sustenance, with no law in existence for organizing and handling the neces-

saries of sustenance, with the masses far removed from all bases of supplies, with an uncertainty as to what laws would be enacted and by whom they would be enforced, with each one slowing down in his individual efforts while awaiting to be supplied or relieved by what was to be, with the certain acts of the lawless and the temporary deprivation and nervous timidity of the masses there would be a panic,—not a money panic, but such a panic as comes in a burning theater or on a sinking ship. A constitutional government is the most helpless of all institutions in an emergency. Even with an abundance of funds nothing can be paid out without an appropriation, while one negative vote compels a long proces in legislating an appropriation. Between an overwhelming election and the time when a new system can be formulated and put into operation, there must necessarily be a time of excited discussion and business inaction. With the masses huddled far from the base of their food supply and with nearly all shipments made on credit orders, the natural tendency of all who chanced to have a supply would be to hold what they had until they knew just where and from whom their pay was to come. Even though the new system would be as perfect as that of the Promised Land, yet the time necessary to make the quickest possible change from what we now have to the most desirable result would be a time of such privation as to force many to forego the fairest of earthly prospects and pass onward into the greater Unknown to receive their rewards.

A rope made out of his blanket assisted the prisoner in escaping from the dungeon in the tower, but the rope lacked 30 feet of reaching the earth.

In considering any measure of government control, while the chief consideration should be the desired ultimate effect, the immediate effect must be carefully considered. The gambling instinct, the love of chance and the element of uncertainty, is very large in the human family,

yet, as a rule, manufacturers and merchants avoid all elements of speculation in the conduct of their business. Their speculations are a "side fling" or a "shot" at some promising prospect, for diversion as well as profit, and made with personal funds set aside for such purposes. Their main business is sacred to their higher ideals and looked upon by them as being as different from their speculations as are their family associations from their club associations. Any prospective loss in their speculative investments does not depress their spirits and bring lines of care in their faces as do threatening business losses.

So, when considering any measure of government control, a clear distinction must be made between productive business and speculative investments if any measure is to be exercised in controlling profit margins and prices, since any interference with productive business will tend to check production, while interference with speculative profits will tend to check speculation. And since all speculative margins are drawn from, or reduce, productive margins, to eliminate speculative margins is to increase productive margins and make higher wages possible. Therefore, to attempt the control of manufacturers' prices would be not only an interference in what is private in its nature, but would tend to check production, since what might appear as an exorbitant price on one article may be necessary to balance a loss on some other article, or be necessary to cover costs of development. Nearly every manufactured line has its "bone yard" of experimental development, and the dead cost of every failure is a part of the cost of what is successful and must be covered in its selling price. So, if any measure of control in fixing selling prices on manufactured articles does not take into consideration all experimental costs necessary in development, it will be unjust and tend to discourage experiments and check further improvements; while, on the other hand, if experimental costs are to be considered and allowed to be covered in the

selling prices, there will be a chance to "pad" such costs and thus place a premium on dishonesty by allowing a profit margin above that of the honest manufacturer.

Another element of cost which would be difficult to approximate in a government-controlled price is the cost of loss by unusual and unseasonable weather conditions and freak tendencies among buyers. Since a factory output must be planned and material purchased long months before it reaches the market, it must be evident that large outlays must be made without any certainty as to market conditions when the goods reach the consuming public; thus, while one season's output may meet with ideal market conditions and show a profit margin so large that government control looks reasonable and even necessary, the next season—at the same prices—may show an actual loss. A business, either manufacturing or mercantile, requires several years of experience and averaging to determine whether it will be successful or a failure, and the manager might welcome government control of selling prices provided the fair profit margin, which government control was to regulate, would be guaranteed.

Look at the matter as one may, the only possible way to control profit margins and selling prices is to control first costs. The parties who now control profit margins and market prices are those to whom the government guarantees protection in owning and holding natural resources and patent rights, and in such measures of government protection we now have partial government control—in suppressing competition without regulation.

And right here it might be well to make a distinction in the nature of special privileges granted and protected by the government—the difference in the nature of land titles, patent rights and copyrights. The copyright protects a writer or painter only in the exclusive use of the form in which ideas are expressed, the ideas themselves being free to any one who may choose to use them in an-

other form. A book may express ideas of great general value and, fortunately, the public prefers to give all due credit to the author and condemns as plagiary the act of another writer who may use the same ideas without giving due credit, but the copyright protects only the original form and not the expressed ideas. A patent right gives to the inventor the exclusive control of the idea which he has evolved into workable form. The practical mind of the inventor may even have found in the prophetic vision of the author the very idea which he works out and has covered in his patent. But, with either copyright or patent right, the public is not compelled to buy unless it receives a benefit equal to the cost. The inventor must give of actual value equal to what he receives. He must bring into being that which he sells, and he becomes a benefactor in direct proportion to the profit margins on his sales, since the purchaser only pays for benefits received. Regardless of the per cent of the profit margins, the benefit must be equal to all costs or there will be no sales, since Nature does not compel the use of patented articles as is the case in the necessity for land.

From this, we must logically conclude that, since land does not result from the acts and genius of owners as do writings from the visions of the author and valuable inventions from the formative mind of the inventor, the privilege to hold land out of use untll a margin can be forced is very different from the privilege of copyrights and patent rights. While the patent right is limited to a certain number of years, and in some countries lapses unless manufactured and sold, yet the right to own land is unlimited whether put to use or held in obstructive disuse. While there is a strong sentiment in the business world against granting patent rights and quite a sentiment in favor of the government paying the patentee a fair amount that his invention may be profitable to himself and free to all, yet there is no sentiment against land titles and in

favor of government ownership except among visionary "agitators." In the general busines world, the man who has rendered a benefit, recognized by the patronage he receives, has his rights questioned; but the man who has obstructed progress by holding and forcing up the price of land, which he does not need, has almost general approval.

At this writing the government is pressing two cases against so-called trusts, under provisions of the "Sherman law." One of these so-called trusts is the United States Steel Corporation, the other is the National Cash Register Company. While the charge in each case is practically the same—undue restraint of trade—one is brought under the civil section and the other under the criminal section of the same law. While the measure and object of government control is the same in each case, yet the line of defense in each case must be different on account of the fundamental nature of their special privileges. The Steel Corporation will attempt to show that no restraint of trade is intended or effected; that they have never attempted to undersell a competitor in any of their lines, but have always stood ready to supply them with raw material as cheaply as could be obtained elsewhere; that they have never attempted to control the market by overstocking or withholding raw materials and partially finished products, but have always endeavored to keep the market supplied with such materials and at such prices as were consistent with their costs of production — which must cover the capitalized value of their mines. Since the government can not question their right and title to the consolidated ownership of the mines, the question must hinge on their right to sell the raw materials and products from the raw materials taken from their own mines. The defence of the Cash Register Company must be along the line of rights covered by their patents. They can offer, in defence, that they are not operating in restraint of trade, but in protection of their patented improvement for the

promotion of trade; that they are the original patentees and introducers of an article so valuable that it has become a part of the world's business system, and that it has become a necessity because of its usefulness and not because it monopolizes a principle in Nature; that nothing of its kind and purpose existed before their introduction, and that all other articles for the same purpose are infringements, so that restraint of trade is non-existent where there is no legal and rightful competition.

So we find two of the greatest trade monopolies of the world, one based on the legal right to own land, the other based on patent rights and builded on the moral right of rendering values equal to its profits. The same measure of government is invoked against each and is one of inhibition rather than of regulation. The same measure of control is involved, yet one monopolizes the source of a multiplicity of production and the other monopolizes a specific finished product.

Government control without considering the nature of what should be controlled would be like putting all animals in the same pen and feeding them all on the same kind of food. Unrestrained, the cows would much prefer to wallow in the meadow where the winter supply of hay is growing than to be confined to the pasture lot; horses will try to jump the highest barbed-wire fence that they may revel in the cornfield and brush the flies from their sides with the tall stalks; hogs like nothing better than "rootin' up garden sass," and even the old dog must be watched that he doesn't attempt to eat fresh meat while it is yet alive.

On the broad, reciprocrating principle, government protection should be subject to government control in the same measure that grants the protection; if special privilege and legislation is required for a special interest, then special and specific control should obtain in the same measure. The measure which grants the protection and the privilege should also carry and define the control.

CHAPTER IV.

APPLICATION OF GOVERNMENT CONTROL.

After making distinctions wherever Nature has made differences, it is next in order to determine what ultimate result is desirable and then to apply the measures of government control direct to causes rather than to the regulation of effects. But, above all, it must first be determined what results and what changes in present conditions are really desirable. And this is most essential, since many of our most influential and important people are perfectly satisfied with present conditions, their greatest irritation being the persistency of the masses to remain in poverty, and their need for charity, when wealth is so abundant. If the persistency of poverty in the midst of abundance really results from inherent incapacity among the masses, then ontology rather than economics and eugencies should be given the greater attention when the "study of mankind is man."

But, even to concede the asserted incompetency of the masses to rise to opportunities, is there not an economic force now tending toward the impossible; a growing force which is tending toward the suppression of those incomes which are so satisfactory to those who are now well above the reach of poverty? This force is the constant rise in land values, a rise made necessary to profit margins on investments which, within themselves, in material increase are non-productive. Being non-productive in material increase, these investments can show a profit margin only in an increasing price, and an ever increasing price on land tends toward the im-

possible, since there must be a limit to the price which is possible for payment. With the limit reached, where the increase in price necessary to a profit margin is in excess of what can be obtained with which to pay the price, it must be evident that loss must result. This limit must be reached when the limit to concentration of population is reached, and failures to realize on landed investments will be coincident with failures to realize profits on manufacturing investments. The land will have become so high priced as to absorb all profits on productive industry and yet fail in profit margins on the investments in itself. With this limit reached, the income of those now in poverty and of many now in affluence will be so nearly on a parity that those studying eugencies will have a much broader field for investigation and greater extremes from which to make deductions.

While this is an economic problem, it is one that can be demonstrated mathematically. In the suburbs of our cities, taken collectively, there is land now platted and withheld from other use sufficient for platting for a popution double that now living in the cities. This land is practically all held as speculative investments with the only possible chance for a profit margin depending on sales at prices nearly double what would have given a profit margin ten years ago. If not sold within the next ten years, to net a profit margin, the price must fairly double on that asked today, since, with the cost of taxes and wardenry, the price must double every ten years to insure a profit margin approximating the 8 per cent margin averaged on manufacturing capital. With the profit margins depending on increasing prices, and with increasing prices depending upon maintaining the present ratio of population concentration, it must be evident that a shortage of material for city population must result in failures in realizing profits on suburban speculation. The scarcity of

population that can concentrate in cities is real and not imaginary. The census reports will show the condition.

In 1890 our cities contained a population of 22,720,000, and in 1910, with the line drawn between urban and rural so as to class as rural all towns of less than 2,500, the census gives an urban population of 42,621,000. When towns of less than 2,500 population and the large suburban population, which is urban in its living and employment, are classed as rural, it must be evident that the line is too closely drawn between urban and rural population; so closely drawn on the urban that it is fairly safe to say that city population doubled during the two decades between 1890 and 1910. During this period, the rural population increased from 40,227,000 to 49,348,000, which, subject to the same estimate given urban population, gives an increase of about 16 per cent as compared with the 100 per cent increase in urban population. As the rural population is already depleted below actual needs in maintaining a food supply, it must be evident that to again double urban population in two decades is a physical impossibility; yet hundreds of millions tied up in land speculating investments are dependent for profit margins upon the ratio of increase in city population for the coming twenty years equaling that of the past twenty years. As our total population is now about equally divided between rural and urban, with the rural having the greater need for population to maintain a balanced food supply, it will be observed that to double city population will necessitate the doubling of rural population, and to double both rural and urban in two decades will require not only a greater birth rate but would absorb the entire population of those countries of Southern Europe which have sent us the greater part of our later immigration. So, for lack of human beings, the ratio of increase in urban population which has obtained for twenty years can not be maintained for another twenty years; therefore, since suburban land

speculation is absolutely dependent upon a doubling of population for a profit margin it must be evident that such profits are impossible. Hence, with speculative investments which must double in price every ten years in order to realize a profit margin, and with sales dependent upon a doubling of population concentration, and with necessary concentration depending upon an impossible increase of human beings, it must be evident that such land speculation is fast tending toward the impossible. It is a condition which the world has never confronted before, at least not in modern times.

The higher capitalization of mines and forests since 1898 has brought on an economic condition which promises to be worse in one respect than that of suburban land speculation. On the principle that actual investments must have a margin of profit or result in an economic loss, which tends to disturb industry, the higher capitalization of mines and forests must result in higher cost burdens on industry or in loss to owners. The burden of carrying a fifty years' stock of raw material at a capitalized cost is by no means a light one on productive industry. While any failure to realize a profit on suburban land speculation is largely an individual matter, confined mostly to side investments, it must be observed that the higher capitalized royalty costs of raw materials are industrial investments, and as long as the materials are in demand for use the royalty costs must be paid.

The mere fact that productive industry must carry the cost burden of a fifty years' supply of raw material makes an "overhead" cost which compels higher rather than lower prices—even on an overstocked market. Thus there are two causes working to the same effect—higher prices; and each cause has passed beyond the control of those who set them in motion. In each case, the promoters and investors stand to lose—unless the ratio of increase in city population for the past twenty years can be main-

tained for the coming twenty years. And such increase must fail for lack of human beings.

As the economic condition has passed beyond the control of individual and corporate investors it must come under government control with special laws which can control costs. But, before considering any acts of government control, there is a threatening prospect which should be traced from cause to possible effect.

The unusual and almost unnatural growth of cities in the past twelve years has been one of the greatest if not the greatest of all factors in giving employment to capital and labor. The increasing city population created new needs and not only spread out into the suburbs but, to better supply these new needs, it caused the rebuilding of the central parts of the city as well as the better pavements and the street railway extensions required. The mines and the forests were drawn upon for immense quantities of raw materials; every line of industry, directly or indirectly, was called upon to furnish tools and to shape these materials into desired forms for use; railroads were loaded with these materials and with the machines and the tools for shaping and handling, while extensions were necessary in reaching out further to supply this growing demand. The growing city gave the employment and furnished the demand for the products, but the people whose needs were being supplied by this new construction were not making the payments on what was apparently being done for their benefit. The greater part of all this new construction has been a species of credit consumption, the funds being raised on mortgages with sales on long time payments or for rentals. While all has practically been paid for, it has not been paid by those who must be the users, thus leaving a debtor condition which must extend far into the future in association with future industry. And herein lies the danger point of the coming economic condition.

In considering the growth of cities, if one will let his mind go out over the industries of the whole country, it will be evident that business—manufacturing and commercial—is adjusted to supplying this growth. Not merely supplying the needs of cities with what is worn out and displaced, but in supplying that which is new in development and which constitutes new growth. If a city doubles its population in ten years its consuming needs, aside from food, will not merely double, but fully quadruple if not more, during its period of growth. It is the new in its building, and not the old in its upkeep, which creates this demand and calls for this increase of materials and machinery and gives employment to labor. A full stop in the rapid growth of a city might reduce its business one-half. Just as suburban land speculation depends on rapid city growth for profit margins, so, also, does manufacturing industry depend upon what is new in city construction for its market and its profits. But, were it not for the high land costs, both in the sites and in the materials, there would be no debtor condition resting upon the people and their industries when, for lack of human beings, the cities stop growing and employment becomes slack. Thus, with all investments adjusted to future rather than to present needs, with the future capitalized on an estimate of a doubled population and their necessities, with the rural districts nearly drained of the best young blood, with manufacturing capital falling into the stewardship management of landed estates, and with great landed estates tending by molecular attraction into capitalized trusts, there must be a change from present personal-interest management of natural resources to a permanent government control. Personal interests are too narrow in conception, too egotistical in bias, too limited in environment, too arbitrary in judgment and too prone to favoritism to be allowed the unrestricted management of that which is wholly public in its nature and purpose.

In so far as the natural resources that furnish raw materials for the employment of labor are concerned, government control must be absolute and positive, since it is of the utmost importance that all productive interests be entirely free from any form of embarrassment and free from all unnatural costs in obtaining raw materials. Since first costs must be covered in the selling price, it is most essential that first costs be minimized so as to include but little other than human costs. This is most important, since first costs—being a burden at interest—increase with the necessary time of development and so increase the selling price without giving any benefit either to the producing capitalist or to the selling dealer. In such control, only government ownership can be effective to the best results. First costs being a burden on production, all forms of royalties on raw materials should be abolished even under government ownership, for, being a cost at interest during the process and time of production and sale, any cost in the beginning of production can not net a revenue or an income to a government or an owner equal to what it compels to be added to the selling price. Economically, it would be better to tax a finished product to obtain a revenue than to add a royalty price to first cost, since the price of the royalty may be doubled by interest and dealers' commissions in the ultimate selling price; thus adding to the cost burden of the producer and the dealer as well as to that of the ultimate consumer, and, too, without any gain in revenue or income to the collector of the royalty price. To levy a tax on a manufacturer's finished product would be to collect on a value which he has, while any added cost to his raw material is an embargo on what he is trying to do. The royalty cost infringes upon the wage fund by holding precedence, and by compelling a cost other than a human cost, and this is true whether it is collected by the government or by a landlord. A royalty

cost must be paid out of stock capital while the tax levy would be paid out of the income.

"But," you may ask, "what is to be done for the owners of natural resources if the government exercises the right of *eminent domain* and takes over the mines, the forests, and the oil and gas fields?"

The answer to that question lies in the future.

The question of today is: What are the owners of natural resources now doing to the productive industries that are fashioning raw materials into ultimate products? This question is logically followed by its sequel: What do the royalty costs compel the manufacturer to do to his employees and what are dealers compelled to do to the ultimate consumer?

The only measure by which to determine what is really due to these people is to first determine what they are really doing for general productive industries of the country. If they can show that identical ores and identical timbers will produce finer and better results when loaded or impregnated with royalty costs than when containing only human costs; or, if they can show that their titles have anchored, corralled, or lassoed any escaping natural resources so as to make them more tame and safe and better natured than if left under government ownership, then they must be given consideration for the full benefit which they have rendered. But, on the other hand, if it can be shown that these resources would, under government ownership, have remained where the Creator placed them, that their quality and quantity have not improved by the added price of royalties, that higher prices for raw materials—without higher quality—are of no benefit to manufacturers, and that higher prices are of no benefit to ultimate consumers, then they will have failed to show reason why they should retain ownership and control of natural resources. The question will then be reduced to a matter of public benefits and private benefits, each based

on public natural resources. And, in the last analysis, it resolves into the question of whether the private benefits are drawn from the natural resources or from the general public.

In making distinctions where Nature has made differences, it must be observed that in deriving benefits from land a farmer's benefit is in the material increase above diminution, and that the diminution—being fertility—is replaced. His benefits are from his material increase and are primary and secondary: First, what he and his family consume in supplying certain necessities and comforts. Second, what he receives in exchange from others to supply other of their necessities and comforts. While his benefits all come, directly or indirectly, from his material increase, yet, in the second consideration he is wholly dependent upon others for what he receives. In mining there is no material increase, therefore all benefits received by mine owners are of diminution and are drawn from others. While the products of mines are an increase, they constitute economic increase and not a material increase, since they are only a change of form resulting from human costs. The human costs being capital waste, general management, superintendency and manual labor, all profit margins above human costs must come from the general public through the privilege of owning the mines rather than from any benefit rendered to the general public by a material increase generated by the mines. The privilege of ownership being granted by the general public as a government, the benefits of profit margins being drawn directly from the general public, and the diminution of supply being a greater danger to the general public than to the owners who loan the margins to maintain estates, the whole question resolves into a public matter with government ownership as the only proper alternative. Land owning—as distinguished from use of land—is wholly a privilege, granted and defended by the power of govern-

ment. To be a privilege, it must carry some advantage which correspondingly must be denied to others. To be an advantage, it must carry the possibility of such use as will enable the recipient to produce a material increase or collect from others for some use valuable to them.

After making a distinction between the nature of a profit margin coming from the use of land and a profit margin coming from holding land out of use, it is next in order to distinguish between that use of land which can develop a product and sustain a profit margin at a maintained level price and that use of land which can maintain a profit margin on its products only when the prices are cumulative. The first is when land put to its best use results in no diminution of its resources, the second is when land put to its best use does result in a diminution of its resources. The first is the case with agricultural lands, the resources of which consist in fertility that can be replaced while the profit yield is perennial. The second is the case with timber and mineral lands, and especially so with mineral lands since their deposits of resources constitute the supply for all time.

Agricultural lands become capitalized naturally as the value of an opportunity, a privilege to employment, but, as such, the capitalization is based on the profit margin of one year's crop sale, while mineral lands become capitalized on the basis of the total estimated quantity and value per unit of the deposit, whether to be mined next year or one hundred years hence. One becomes capitalized on the needs and profits of the present and, being an active investment, requires only a small margin above human costs to insure a profit margin; the other, being largely a capitalization of what the future will need, is correspondingly an idle investment, so that portion which is active must render a much larger margin above human costs, in order that the idle portion be honored with a margin, than is the case when the whole capitalization is active. Mineral deposits

being the supply of the future as well as of the present, to capitalize these deposits is to capitalize the future; so to demand and receive a profit margin on the capitalization is to compel the present users to pay a profit margin on what future industry must use. Thus, the selling price of the products must be far in excess of the human costs in the products in order to pay profit margins on that part of the deposits remaining for the future, or there must be constant cumulative prices in order to realize on idle investments. This is evidenced by the constant advance in the price of timber stumpage; an advance made necessary to cover interest margins on the first investments together with costs of taxes and wardenry.

The principle involved in this apparent necessity for constant advances in the prices of timber and mineral supplies has been previously mentioned, and is reconsidered only that a comparison may be made between agricultural land holdings and mineral deposit and timber land holdings. The deduction from the comparison is that no great injustice or hardship results from private ownership in agricultural lands when they are put to their best use, but that there is a resulting hardship and an injustice in compelling productive industry to pay profit margins on capitalized raw materials which future generations will use. And the latter is true even when timber lands and mineral deposits are conserved and put to their best use under private ownership.

So, in considering government ownership of mineral and timber lands, "we are confronted by a condition and not by a theory."

The continued private ownership of such natural resources, if small profit margins are to be realized on investments, must tend toward an economic condition wherein profit margins will be impossible to ultimate manufacturers on account of prohibitive prices to ultimate con-

sumers—prices impossible of payment on account of unnatural costs covered by the prices.

"The greatest good to the greatest number" has often been lauded as the proper trend of governmental policy. While that is very good sentiment, it is not always practical, yet there are times when the greatest good to some people is to protect them from themselves.

The terms on which the government should take over these natural resources is something to be decided when the government considers the action. The government has no right to guarantee a profit margin on manufacturing, and much less on speculation. For the government to purchase these natural resources from present title holders would be not only guaranteeing a profit margin on speculation, but would be paying it. While it is morally wrong for the government to take from one man or from one set of men and appropriate to the benefit of others, it is not wrong—morally or religiously—for the government to prevent one man or one set of men from taking from others and appropriating to themselves; and taking from others is the only way a profit margin can be made on speculative investments. As present owners of natural resources have not yet realized on their speculative investments, that which they have not received can not be taken from them, but for the government to exercise the right of eminent domain would be to prevent them from taking further from productive industry and from the masses through the higher prices necessary in paying them a speculative profit margin.

But there must be a distinction made between the working capital (machinery and development) and the royalty privileges when government ownership is seriously considered. Capital and development are human costs which must be paid in their fullness, while royalties were practically free to original investors and, having no material growth since, it is logically and morally evident that the

owners have rendered no benefit whatever to the commonwealth by holding the titles for these several years.

Nor need government ownership mean government management any more than private ownership means management by the owner. A large percentage of mining and lumbering is now done by contractors who furnish all working capital and are held responsible for wages to the extent of their capital, while many mine owners own only a lease holding, paying one royalty to the title holder and developing another for themselves.

At present, government ownership of natural resources is a matter of discussion only and not one of action. It must eventually come about, but it may come by a proposal from the larger owners of such resources who must soon realize the mistake of their higher capitalization. It must come about in order to prevent a double loss—a loss to manufacturing industry by being driven to prohibitive prices made necessary by higher royalties, and a loss to owners of resources resulting from the impossibility of realizing on great investments which can generate no increase.

The greatest mistake in the business world, yes, the greatest blunder in business transactions, even surmounting John Law's Mississippi scheme in the eighteenth century, is the higher capitalization and financing of the dormant value of mineral wealth. A sleeping giant, whose vitality was stored for coming generations, has been awakened and must be fed. The awakening has been profitable in untold millions to the promoters, but the feeding falls upon productive industry, not so much in the consumption of their products as in the growing necessity for their debtor obligations. He can feed only by the growth of cities and the concentration of population, and when the growth of cities fails for lack in the supply of human beings necessary to maintain a certain ratio of growth, then must this giant go unfed and a loss fall on his managers as well

as upon all on the debtor side of the economic condition. The loss will result from an unbalanced trade condition and an unbalanced condition of population.

The capital equipments of manufacturing and commerce are adjusted, in their requirements, to the present ratio of city growth. The full employment of labor requires that the present ratio of new construction be continued. Railroads are crowded to the limit of their capacity only when handling the fall crops and the winter's supply of fuel, which come on at the same time. But profit margins on mines and forest capitalization, depending upon an ever increasing market for construction materials, must have a greater ratio of city growth—or fail, since the future supply is capitalized and must be moved out and marketed or result in loss. With the future capitalized and with the estimated future profits represented by bonds calling for interest which must be paid by the products of the present, it must be evident that any falling off in city growth must result in loss to all speculative investments and to all unnatural, over-capitalized and heavily bonded interests. Yet the continued growth of cities, with their enormous demand for raw materials in their construction, does not rest upon capital to do the building nor depend upon raw materials from mines and forests for the construction; it requires an increase of population to inhabit and use the new buildings that they may be possible of showing profit.

While profit margins on present par investments require that cities double in size during the next twenty years, yet that increase will not be possible inside of fifty years, and more than likely not in one hundred years. Our birth rate is waning and the economic condition of Europe is changing for the better while ours will be less attractive to any desirable immigrants. With the second largest homogeneous population of any country in the world, we have never been so much in need of more people

as right now. A greater increase is necessary that those now here be fully employed. The growing city is our only hope for employment so long as bonds and mortgages raise the funds for the wages. The acme of private control and speculative ownership in natural resources will soon be reached.

Profit margins on the future can not be paid in the present.

CHAPTER V.

GOVERNMENT CONTROL BY INHIBITION.

How to prevent panics, rather than how to bring them about, being the function of this work, the calling of attention to a threatened business depression resulting from an unavoidable check in city development must not be mistaken for a "calamity howl." There has never been a panic that could not have been avoided, as a panic, had the business world been able to recognize the approaching business depression and prepare for it. Panics have always come to speculative investments and never to productive and commercial business. Failures come with an utter inability to realize a profit margin where there is absolutely no material increase nor human costs. Such failures are inevitable and will occur periodically just as long as productive business allows the funds which it generates to be withdrawn from the consuming market and invested in speculation.

Winter is a time of depression and loss to agricultural industry, and much of the products of summer are required to tide over this season of reduced activity, yet winter brings no panic to the farmer who has adjusted his business to a known condition. Manufacturing industry would need suffer no loss during a slack period, were it not loaded with unnatural costs, to pay which requires a continuous performance of productive activity. Agriculture, controlling the privilege of its resource, can have slack seasons without nerve-racking financial disturbance; but capital and labor in manufacturing, being loaded with unnatural costs, after producing all the market requires,

must then produce a lot more to pay for the privileges of producing.

That slack or depressed business activity must follow the inevitable falling off in city growth does not necessarily mean that a panic must result. Yet, a panic will result unless unusual precaution is taken by those in charge of trust funds and unless speculators recognize the inevitable and accept their loss in advance with the good nature of a merchant putting stale goods on the bargain counter. If the inevitable reduction in general new construction is recognized in time and large basic business interests proceed openly to establish those reductions in costs which must follow a business depression, if the prices of rents can be reduced in time and general profit taking be abandoned, then there need be no panic. The general loss will be less if shared proportionally than if all try to gain an advantage in order to save a small margin of profits. Action without greed could forestall bankruptcy. For two reasons, speculative investments must meet with loss within a few years; first, their profit margins depend on rising prices which have even now reached points that inhibit sales; second, their sales at any price depending on continued concentration of population, it must be evident that concentration must cease for lack of population to concentrate, while strong efforts are being made to induce people to leave the cities. In the face of certain loss to speculative investments depending for profits on sales of land at cumulative prices, it is now certainly logical to consider not only the prospect of loss but how to prevent such loss in the future.

But it does look paradoxical that when a people have reason for pride in their advancement in science and art and in their great accumulations of what should render life a pleasure, with leisure for the enjoyment of a plenitude, that they must be confronted with economic loss and be threatened with financial disaster. Still, it is a known

fact that our greatest financial disasters come at times when Nature has assisted with an abundance, when thousands of new dwellings have been erected to house the people, when a profitable trade has distributed a profuse factory product to all parts of the country, and when it seems that the "year of jubilee" is easily possible.

Industrial depressions and financial panics being the result of unbalanced trade conditions wherein credit consumption has left deferred payments which, falling due, are renewed and fall due again coincidently with other and later deferred payments, all measures intended to control these depressions and panics must be directed against the cause and not in regulating the effect.

As unbalanced trade conditions result directly from unbalanced costs in the first process of production and in the withdrawal of funds from the general market for the purpose of speculation, the most direct manner of regulating unbalanced costs is by government ownership of mineral and timber lands and, possibly, also of terminal and wharfing facilities necessary in transportation. This recommendation is based on the broad proposition that, to insure a profit on the service that may be done, the profit must be abolished on the privilege of doing, for the profit on the privilege may double the cost of the product. The profit should result from the doing and not from the privilege, so government control of all privileges to produce would be a control of all production. But government ownership of all lands is not necessary to best results in controlling or inhibiting speculation and "margins" gambling.

Some people believe that all our financial evils result from stocks and grain gambling. They quote the aggregate of transactions to show the enormity of the total, and compare it with the cost of shoes for all the children or with charitable gifts that would put all "down and outs" in palatial homes. But it might be well to figure out the

aggregate amount of busines done in swapping an old plug horse every day in a year. If every swap were represented by a check and run through the clearing house it would certainly look like a lot of business. The old darky counted the new litter of pigs. He said, "Ah sure counted nine and dah was one moah dat run'd aroun' so fas' Ah couldn't get th' count o' 'im."

Any law that would prohibit the buying and selling of any stocks, grain or cotton at the will of the owner would result in an embarrassment to trade and commerce and also infringe upon a private right, while any attempt to regulate prices by law would prove futile. To so regulate sales that no change in prices will be allowed during selling hours on any board of exchange or at curb gatherings would so completely destroy "snap" margins that such dealings would be robbed of much of the incentive that encourages such speculation. It certainly can work no hardship or loss on legitimate offerings of stock to compel prices to be posted on the day preceding the offering and to prevent any change in prices, on either higher bids or lower concessions, to be operative until the ensuing day. While the enforcement of a law so simple would not eradicate stock and produce speculation, yet it would eliminate its worst features. But, in grain speculation, if the government exercises any measure of control that will act to retard such early investments in grain as will relieve the farmers of their burden, there will result greater fluctuations in prices than now—unless the government provides the necessary credits to relieve the farmers and carry the burden.

All margin gambling is really more a question of morality than of economics. To render such dealings unprofitable by preventing rapid fluctuations would make them appear more immoral to those now patronizing them on the sly. However, the amount of money involved is the margin only and not the face value of aggregate trans-

actions; so, as an economic question, its relative importance —compared with what has been said concerning it—is about like the smoke and the odor of a burning rag. Unlike land speculation, speculating in margins has no measurable economic effect, nor does it withhold from use any portion of what the speculation covers. The fluctuation in railroad stocks has no effect on freight and passenger rates; the difference between what farmers receive for wheat and what millers pay is too slight for a speculative margin that can affect the price of a barrel of flour or a ton of bran; but land speculation can and does force up railroad rates, the price of provisions and rentals. Yet land speculation is considered honorable and moral. Just what makes the one immoral and the other moral is very difficult to an impartial understanding, unless it be that some moralists in trying speculation in margins got "bit" while their land speculations proved profitable. The one requires wit and quick action, while the other requires only the patience of humility and the birth and growth of other people's children.

Be this as it may, if we are to reduce the high costs of living and maintain markets for our factory products, we must reduce the selling and renting prices of land. In doing this we will not be taking from one set of people and giving to others, but will be preventing one set of people from taking from another set of people all of their earnings above the barest subsistence. It can be done by inhibiting land speculation through the use of a *protective taxation* system. Not a protection against "foreign pauper labor" but a protection against what has made paupers of honest foreign laborers and which is fast making paupers of our masses and driving our manufacturing industries under the stewardship of great landed estates.

In 1879, Henry George brought out "Progress and Poverty," a book which has been the most read and the least understood of any work ever published on economics.

Mr. George proposed a simple remedy for unequal distribution of wealth—too simple for those who were demanding drastic measures, and pronounced as dangerous by those who were reaping the benefit of existing conditions, while those who would receive benefit by its operation looked upon his ideas with incredulity and indifference. What he proposed was to inhibit land speculation by a system of taxation which would have turned into the public treasury all profits resulting from the natural tendency of land to increase in price with increasing population. While Mr. George did foresee the result of higher land values (ground rent, as he expressed it) constantly taking more and more of the products of industry, royalty costs were then only a small part of manufacturing costs, and he was compelled to handle the question more in theory and as a sentiment than as a practical business matter dealing with actual costs in money.

Had Mr. George's system been put into operation at that time, we would not now be feeling the high costs of living, nor would the private interests of "billionaires" be threatening to small industries, yet his proposed system of taxation would not now have the same effect in relation to mineral and timber land monopolies as then, since they were not then capitalized and owned in consolidation.

Mr. George made one serious mistake, not a mistake in his reasoning nor in his deductions nor in his proposed remedy, but in the manner of announcing the remedy, and this mistake aroused prejudice rather than appealing to the reason of the middle classes. In proclaiming, *"We must make land common property,"* he called to his support a class who not only did not comprehend his reasoning but who would weaken any cause by their advocacy of it. Well might he have prayed, as did old Martin Chuzzlewit, "Lord, deliver me from my friends." The one incongruity in his reasoning and deductions was to proclaim all economic troubles as based on private ownership

of land, and then propose as a remedy for these troubles a measure that would leave private ownership of land practically inviolate. In asserting private property in land to be wrong, he aroused the antagonism of nearly all land owners and would-be land owners and brought to his support all who were opposed to organized society in the form of government. While opposing his proposed measure, the using owners of land did not understand him, not knowing that it would have given them larger returns without endangering their title; those opposed to government supported him, not understanding that his proposed measure would have strengthened government. But his work speaks for him, and those who have not read it should do so, while those who have read without understanding should read it again.

Protective Taxation is really what Mr. George advocated in "Progress and Poverty,"—a tax protection for all using land owners and all prospective-using land owners against non-using land speculators; and, had the matter been presented in the light of protection, it would have met the favor of many believers in protection. Not being understood, "Proection or Free Trade," another of his works, did much to prevent a fair consideration of "Progress and Poverty." But when we take into consideration that land value royalties now constitute fully 65 per cent of the cost of manufactured products, we realize that Mr. George was not far from right in believing that, by so levying a tax as to inhibit the 65 per cent of land value costs, wages could be increased and a larger profit margin to capital would obtain on an absolute free trade basis, the burden of land value costs being far more than the tariff protection benefit. Be that as it may, at the present time tariff protection is of more benefit to land value royalties than to labor and capital, since any advance in tariff rates that will allow an advance in selling prices will result in higher royalties rather than in higher wages or

larger profit margins to capital. This condition places capital and labor "between the devil and the deep sea"—the devil of land value royalties and the imports of the deep sea. If it is practical and logical to protect capital and labor against imports by the use of taxation, why is it not practical and logical to protect them by the use of taxation against land value royalties?

This is not merely a matter of taxation to be considered only from the viewpoint of obtaining a public revenue, the science of which has been said to be the same as that of plucking a goose—"how to get the most feathers with the least squawking." Our accepted and practised theory of raising local tax funds is to tax every person according to value of property holdings, the amount of funds necessary to be raised by taxation and the value of property that can be found for tax levy being the only things considered. But in national taxation it is very different, the tax levy having a double purpose; one being to obtain a necessary revenue, the other—and the most ostensible—being to protect home industries by higher tax duties on like products of foreign industries. So, as some uncharitable people have said, "we levy a national tax so as to encourage a man to build a manufacturing plant and then levy a local tax to as to fine him for building it."

Even freight rates, which are a species of taxation, are not levied without discrimination; the same weight, bulk and value being classified differently with differing rates over the same route for the same distance and destination. Rate experts convinced an unwilling Congress that it was a beneficial economic measure to assess the goods of one man at a higher freight rate than the goods of another so as to equalize other conditions and encourage an industry that would benefit a certain section.

Postal rates, which are the tax levy of the (commonly conceded) best and most judiciously managed of any of our governmental departments, vary about 3100 per cent

for practically the same service in carrying and delivering newspapers for one cent per pound and letters at two cents per ounce. This great difference in tax collection for practically the same service is reasoned to justification on the grounds of discriminating between a general public benefit coming from the dissemination of news and the strictly private benefit of private letters. While it may appear that 3100 per cent discrimination in favor of publishers as against private letter writers is an unjust discrimination, the apparent favor to the publisher is really a favor to the public as a whole in the general benefit of disseminating knowledge; the letter, being strictly private, is of no benefit to the public and the two cents postage is the cost of a benefit which the public has rendered to the individual. It is a clear distinction between what is public —or quasi-public—in its nature and that which is strictly private and in which the public should have no interest if void of perversion. If the general government can work an economic benefit by distinguishing and discriminating between that which is quasi-public in its nature and that which is strictly private, why is it not reasonable for the state to make distinctions between what is public in effect and nature and that which is private in its use? This question leads to the distinction for the answer.

In public funds the individual and the family have only a fraction of interest. In private funds the public has only a fraction of interest. And the word "funds" in this connection is here given the broad meaning and includes not only money but also all capital and wealth which has been developed by the industry of man; land, not being the result of any form of labor, is not included. In obtaining funds of capital and wealth, the individual and family now employ three distinct manners or processes: first, by producing, without aid from others, those material things which satisfy their necessities and add to their comforts and luxuries; second, by producing, with the assist-

ance of others or by exchange with others either of produce or assistance for such material things as satisfy their needs, comforts and luxuries; third, by obtaining with force or schemes, or through the control of some special privilege compelling payments without rendering material values in exchange for what others have produced of those material values which satisfy the needs and add to the comforts and luxuries of the recipients.

While all of these three manners of procurement may be combined and exercised by one individual, it will be observed that in the exercise of the first manner of procurement the individual or family received no assistance from the general public, singularly or severally, and are, therefore, not owing the public anything—except for the privilege of space occupied and the crude material consumed. Space and crude materials concern the public. In the second manner of procurement the individual or family, in dealing with the general public, render value for value in all dealings and, having paid for all received, owe the public nothing—except for the privilege of space occupied and crude materials consumed. In the third manner of procurement the whole principle of producing and balancing value and obligations is changed; there being nothing of human cost rendered in exchange for what is received, there must be much due to the general public, since the general public only should control privileges and collect for their use.

It is almost impossible for an individual to subsist by the first manner of procurement, yet the principle of such procurement exists to a certain degree in all lines of productive effort. Very much of what is produced and used by individuals and families is of no concern to the general public whatever, since, not infringing the natural or property rights of any other individual and not adding any costs or inconvenience to the general public, it is inherently private in its nature and in its use. While it is

very common to find all three of these manners of procurement combined to beneficial results, yet it is all too frequent that the third is the only one in use where incomes are very large. And in such cases, while the individuals may be of the highest quality and character, and most liberal with charity, only legal justice is considered,—with beneficiaries influencing the laws. Since all our economic ills lie in the unbalanced trade conditions resulting from this third manner of procuring incomes, it should be timely to examine and determine if this manner of procurement can be inhibited by local taxation without disturbing production and exchange.

Benefits resulting from a protective tariff being a mooted question, the inequality of national taxation is mentioned here only in comparison with the rigidity of local taxation which considers values only and regardless of the fundamental nature of properties or how they are obtained or used. The most rabid free trade advocate, while condemning import duties, admits a possible benefit in tariff discrimination—if the tariff must be; yet the most firm believer in tariff discrimination fails to recognize any possible benefit in local tax discrimination. And this really seems strange when it is so evident that the value which attaches to suburban lots is a value created by manufacturing plants and their employees—a "maverick" value, bred and raised by productive industry, but claimed and marketed by speculative investment in the third manner of procuring incomes. And it seems especially strange that a man who asks for a higher protection in the form of a greater tax discrimination against imports, does not recognize the advantage of a tax protection against that which has lowered his profit margin, increased the living expenses of his employees, reduced the ability of the general public to buy his products and forced his selling price so high as to destroy his margin of protection and invite imports.

A clear line can be drawn between what is public in its nature and that which is strictly private in its nature and in its use. All land is public in its nature, and this is evidenced by the necessity for a publicly granted and recognized title for its exclusive use. And the value of land is even more public than the land itself, for, while the land can exist in the entire absence of a public, the value can obtain only in the presence or prospective presence of a public, and the greater the public the greater the value. The value which adheres to land, increasing with increasing population and waning with its diminution, is man value essentially, being that part of individual value that radiates from self and is made manifest in the municipality and its suburbs by giving value to rental properties and vacant lands. Being man value which has radiated or strayed from the individual, it becomes an associate value, therefore a public value, and they upon whose land this value rests receive a value from the public far in excess of what they now render to the public. In principle it is much as if a man owning a tract of unfenced land should have the recognized right to impound and appropriate to his own use all stock that might stray upon his land.

This principle is most noticeable when a large manufacturing plant is erected in an outlying suburb or in a small town. There will result a radiation of value, according to number and quality of employees, which strays out over the adjacent lands and becomes the private property of the land owner, beyond the recovery of those who generated it and a burden to them if they buy or rent of these lands for homes. Just in proportion as they create a value to the land they must pay a cost for its purchase or use. It is the same in principle as if a man had produced in its entirety a thing which he must use and then be compelled to pay to another the full amount of its value before he can use it. In every principle, that value

which attaches to land is a public value, since every individual in the community contributes to it according to his individual ability. If one owns land equal to his needs in use, a value equal to his individual value will attach to his own land, thus permitting him to retain his own value. If one owns more land than is needed in individual use, then he obtains a pro rata of other individual values according to quantity of land and number of landless individuals.

Those born landless have the same relative individual value as those born to inheritance, and if their birth is an increase to population, they must, to become land owners, pay the average value of individuals for the privilege, and in addition must pay the price which they as an increase of population have added to the average value. Those born landless must pay the price of their own value just as completely as did the slave who purchased his own freedom. So, that personal value which is lost to the individual in the associate community, ceasing to be private, should inhere to the public instead of inuring to private ownership through "unearned increments." It should constitute a natural public fund for all public expenses and improvements instead of drawing upon what is strictly private in its nature by taxing personal property which is foreign to public interests and uses. Land value is a natural public fund.

Whatever is strictly private in its nature and use, if in conformity with our moral code, should not be subject to public interference in restriction or taxation. Land ownership being a public granted privilege, the public has a right—which should be enforced—to demand that all land be put to good use. With a certain standard of use prescribed, the public should not object by taxation if a man puts his land to much better use than the prescribed standard. If the standard for houses is a cost of $1,000, the public should find no fault nor levy any added tax if

the man builds a $20,000 house. Whether the house costs $1,000 or $20,000, it is strictly private and adds nothing to public costs in what is public business. The public being concerned only in the space occupied and in its proper use, if the owner puts it to better use than prescribed he should be rewarded rather than fined with a heavier tax levy, since a general benefit would emanate to all of his surroundings. He would have employed far more labor in building the $20,000 house than in building a $1,000 house, and the greater quantity of material and greater quantity and better quality of furniture would give other employment with profits to dealers and rates to transportation. And what should be of more interest and benefit to the general public is the fact that a value would emanate from the higher class of improvement which would go out, not to the people, but to all the adjacent lands—a value which should be taken in taxation for public use, since in no sense or reason should it belong to the parties on whose land it may come to rest. All improvements being public benefits, it really looks unreasonable and unjust to levy the heaviest taxes against the man who has rendered the greatest public benefit by making improvements while those who are holding land out of use, waiting for others to make improvements and give it value, are given a lighter assessment. It should not be possible to have it said:

A man is honored and favored in proportion to his speculative margins,
While the good that he does is remembered against him on the tax roll.

But, in considering the benefit which a man has rendered to the community by building a fine residence, the ways and means which he employed in obtaining the necessary funds should be taken into consideration also, since what he obtains is in his dealings with the public, directly or indirectly. If he has

"Made two blades of grass to grow where but one grew
before,"

then he has rendered full benefit to others for all that he has received, and it would be unjust to tax him on improvements which benefit the public without adding to public expenses. But, on the other hand, if he has obtained his funds by

Making two shares of stock to go where but one went
before,

even then the tax should not be levied against the benefit he has rendered, but so levied as to inhibit the profits in doubling land value prices and in speculative margins. Taxes should be levied on obstruction and not on production, then obstruction would fade away and production could be increased at lower land value costs and with higher wages to labor and larger profit margins to manufacturers.

The more one considers the matter, the more evident it becomes that land value is a public fund and not a fund that should be appropriated to private benefit, since it does not result so much from the use of the land as from holding it out of use. With a natural public fund being perverted by obstructive speculation, to the detriment and at the expense of industry, it really seems strange and unjust that private funds should be levied upon to pay public expenses. Public values should pay public expenses and private values should remain private, and taxes should be so levied as to prevent public values from ever being converted into private funds. And this principle becomes more pressing when we consider and fully realize profit margins on present landed investments can be realized only by still higher prices than now asked, every profit margin meaning higher prices.

If there be any who believe it would be unjust to interfere by force of law with land values, either by fixing

a price limit or by appropriation in taxes, let them explain the justification of fixed interest charges and freight rates. Let them explain why one man holding a mortgage on a house and lot must be limited to a fixed percentage on his investment while the title holder is allowed to double the rental price, and without even keeping the property in good repair. In seeking an excuse for higher rents, the landlord has put forward that of higher taxation on his property, yet on a basis of city rental prices in 1898, the increase in rental prices alone would now pay total city taxation, while—in buying city and suburban land—the amount which has been paid on the increased price alone since that date would be sufficient to liquidate all outstanding municipal indebtedness. This is a rough statement made on a rough estimate, yet a careful consideration will show that it will approximate fairly where cities have shown an increase of 25 per cent and over between the years of 1900 and 1910. But, it should be observed, the amount considered is the increase of prices only and not the full amount paid. And this raises pertinent questions.

If the prices collected in rents and paid in the purchase of land in 1898 were sufficient to pay interest and margins on investments, why was it necessary to increase these prices from 25 to 150 per cent during the intervening years to 1912? If such increase in prices was necessary in maintaining interest and investment margins, will it be necessary to continue the same ratio of increase during coming years, that interest and margins on investments may continue to be maintained? If such increase in prices continues necessary in maintaining interest and investment margins, to what height will they ultimately rise and what will be the condition of prosperity that can pay such prices? If such increase in prices is unnecessary in maintaining interest and investment margins, why should it be tolerated, and what assurance is there that

it will not continue? If it is economic justice to support the principle of economic and commercial interest and investment margins, can this principle be sustained if any distinction be made in the fundamental nature of investments? If any distinction be made in the nature of investments, should the distinction be made in favor of such investments as operate to assist in producing an increase of material values or in favor of such investments as can show profit margins only by increased prices not necessitated by any human costs? If it should be deemed economic justice, therefore necessary, to distinguish and discriminate against investments which can show profit margins only by higher prices not necessitated by human costs, what would be the best method of making the discrimination so as to least disturb productive and commercial interests?

Whatever is to be done, the desired result must first be determined. If present economic conditions are satisfactory, then nothing need be done. If present high prices, and the present tendency toward higher prices, constitutes an unsatisfactory economic condition, then the measure of relief should be directed against the cause of high prices rather than against the prices themselves. Since prices must cover costs, if we strike at the dealer—who must pay the costs which come to him with his rent added—we shall receive poorer service and inferior goods. If we strike at the manufacturer, we can at best reduce prices only to the extent of the average 8 per cent which the census shows was the average margin to manufacturers, and which if wiped out would close the factories and cut off our wages and salaries. Whatever is done, the manufacturers must not be disturbed at the present time, since those making the largest margins will be compelled to suspend their output in proportion just as would those of the smallest margins, so the smaller margins must be sustained. So, not to compel inferior goods and poorer

service, not to reduce manufacturers' margins and thus compel shorter production, not to reduce the returns to any form of human costs, the problem resolves into a matter of striking direct at those first costs which contain nothing but privilege in their make-up. With government ownership of mineral lands, timber reserve lands, and terminal facilities, and with local taxes levied against land values only, there would result an increase of available funds that could be used in buying and consuming the products of industry so it would not face the necessity of ever rising prices and accumulating indebtedness. With local taxes levied against land values only, the tax funds would be drawn wholly from those public values which are now absorbed by speculative land investments. This would in no way affect land ownership except to render it unprofitable if land were held out of use. The selling price of land being of no benefit to the using owner, any decline in the speculative price would result in loss to the speculator only—with a corresponding benefit to the using owner by giving a better market for produce and by reducing the price of what he must buy.

But to argue a loss to land speculators would be to reason that a loss can result where nothing material was done and nothing gained, since if gained it could not be a loss; while if gain does result to land speculation there must be a loss to the source from which the gain was received, since nothing was rendered in return for the gain except privilege at an advanced price. In reality, all speculative land investments must result in loss, since, being non-productive of material increase, if the investor fails to sell at a profit margin he suffers loss, while if he does realize on sale then the purchaser is the loser of the profit margin. Land titles, not being material substance, are privileges only; therefore, a purchaser of a land title is a loser to the extent of the price paid, since the price bears no relation to any human cost nor to the profit com-

ing from putting the land to use; the land giving the same returns under the same usage whether it costs much or nothing. The profits on land speculation are essentially the same as those from gambling. With nothing at stake but privilege or money, what one gains another loses.

To collect all local taxes from the public fund of land values would result in loss to all investments based on land speculation, but we are now at the point where we must choose between losers rather than choose winners. We must choose between the land speculator and the manufacturer. If the choice is in favor of the manufacturer, and made in time, then the land speculator will be the only loser, otherwise, they will both be losers. On the basis of present capitalization of land values, those who have speculative investments in lands must lose; the present prices being prohibitive of possible payments, even though there were an available population seeking to buy. The number of people necessary to maintain the present ratio of city growth is impossible, so suburban investments must fail for lack of human beings. There is already a shortage of population in the rural districts, and while there may come a great demand for new agricultural lands —if at government price—the people who will be willing and anxious to go out on the land will have no more money with which to start farming than did our grandfathers when they went out into the forest to find free lands. But how can the people of to-day make a living with a rifle and an ax on any land now held by speculators —at present prices? The old-time land speculator acquired lands at the price of boodle grants, and at $1.25 per acre at most. To sell at $5 or $10 per acre, and on time, was not prohibitive when the settler could build his cabin from the trees of the forest and the game would supply him with meat. And the writer was born right there and knows the truth of the forest and the farm, as well as factory and the city. Yes, he knows the forests and farms

of the North and the South, of the East and of the West, and thousands of factories in hundreds of cities in dozens of states! In all of these, the conditions are the same.

Land speculators stand to lose, their investments and their capitalization demanding prices too high for payment. They stand to lose whether abandonment is forced by the "single tax" or left in the glory of anticipation until their investments ripen and decay, returning to the soil unharvested. Even if some realize by sales, those upon whom they unload must stand the loss. The loss is inevitable; if it comes with the over-ripening of an unharvested crop, then will the manufacturers suffer even a greater loss. The price of the land will strangle the factory.

Pessimism is the antithesis of optimism. The New York *Herald* says: "An optimist is one who expects the coal trust to voluntarily reduce prices."

If the government has the right to regulate freight rates on coal, why has it not the right to regulate the royalty price of coal? The track and rolling stock of a railroad, being of human cost, are much more a matter of private property than are coal deposits. And if the government were to take over the coal mines, should the mine owners be remunerated for the fortunes which they have in anticipation, or should they be charged with the fortunes they have received from royalty prices?

Among small boys, inherent justice is alternation in riding and in drawing the sled, but the most frequent practice is that the boy most able to draw the sled, by coercion, does most of the riding.

This work is intended not so much as an argument in favor of government ownership and land value taxation, but rather as an argument to show the need of something being done. It is more the object to show the cause and process of certain effects and the purpose toward which measures must be directed. Effects are known, and the

most important thing is to recognize their cause. With the cause recognized, measures will follow. Government ownership and land value taxation are advocated here only because they are known and would prove wholly effective in regulating first costs so as not to interfere in any way with manufacturing and commerce. What solutions have others to offer?

CHAPTER VI.

UNBALANCED BANKING.

There should be a distinct line drawn between banking and brokerage, since most of the condemnation which the general public deals out to banking is due to brokerage. The two are very closely allied in the inner financial circles of great commercial centers. Banking, as banking, is a commercial community of interests wherein the growing and shifting assets of manufacturing and commerce assist each other during the process of evolution and transition between crude materials and the retailing of ultimate products. In banking, the funds of the community are gathered and used in support of the productive and commercial business of the community by receiving deposits and granting short time accommodations to assist in forwarding the natural delays in production and exchange. In legitimate banking, speculation should have no part, since it is more a matter of handling and balancing credits than of money loaning. Brokerage is more a matter of private business such as loaning money on call at varying rates, promoting speculative prospects, financing constructive development, dealing on commissions in either stocks and bonds or landed properties, and is frequently employed in manipulating market and property prices by discrimination in the use of money funds.

Banks deal mostly in credits, brokers mostly in properties and money. But, as the terms ''broker' and ''brokering'' are given a slightly different meaning in this country than in England, it might be well to make an exception of certain business interests such as produce-merchants and

manufacturers' agents who are often classed as brokers. While this distinction is wholly arbitrary on the part of the writer, it is really necessary in distinguishing between the use of funds which assist production and exchange and funds which may obstruct and levy tribute on production and exchange. Therefore, banking will be defined as the funding and the handling of those funds generated by and necessary to the growing assets of productive industry; and brokerage will be defined as handling the funds of fixed properties and the promotion of such investments as depend upon prospective development and increased prices for profit margins. This distinction is really made that it may be considered later in connection with the necessity for an elastic credit money.

Unbalanced banking results from an unbalanced exchange between two or more communities. This may be caused by one community buying more than it sells or by selling more than it buys, and as the banks handle the exchange they may find themselves in possession of a plethora of funds representing the surplus of what the community has sold over what they have bought, or there may be a shortage of local funds resulting from the community buying more from outside than they have sold and shipped to outsiders. With the banking of every community reflecting the productive and commercial business of their respective communities it would seem that with balanced commercial exchange there should result a balanced banking condition. But this is not always so.

Every growing city has more or less of vacant or illy used lots in various localities from its business center to its suburbs, and as a rule, in the central section of the country, many of these properties are owned by outsiders who consider them as investments only. With the continued growth of the city, it is only a matter of time and development until local needs will find a prospect of profit in buying the most desirable of these lots for better use.

Suppose the selling price to be $100,000 and also suppose that the city has twenty-five manufacturing plants which average a pay roll of $2,000 each per week. With the commercial exchange of the city balancing in outgoing and incoming products, there would naturally be a balanced banking condition, but the land deal would equal the pay-roll of two full weeks of the twenty-five factories and would cause a strain on local money to the extent of the sale. While it would be a strictly private deal, yet the whole city would be drawn upon for the money exchange with a relatively unbalanced condition between local and outside banks. To finance such deals would be more the business of brokerage than of banking, yet banking is drawn upon for the funds used in brokerage. It is not necessary to consider who and what gave the lots their value in order to measure the after-effect of their sale. If the selling price is taken away, the community loses that much of its banking money and must send out that much in surplus goods before the banking balance can be again restored. If the money is left in the city to be used in local loans, as is frequently the case, it not only has the appearance of building up the city with foreign capital, but lays the foundation for future unbalanced banking in the amount of annual interest dues and in the full amount when falling due.*

* This is well illustrated in the following news item from Seattle, Washington, under date of July 6, 1912:

"Rudyard Kipling, the novelist, appreciates a good thing even if it is foreign to esthetic arts. He has declined a small fortune for three parcels of Seattle real estate, at least until he has investigated the real value of his land. Fifteen years ago Kipling was induced to buy three lots here. The land was then on the edge of the forest and the investment was trifling. Since then the city has been favored by prosperity and the edge of the forest has moved back fifteen miles in as many years. From the initial investment of a few dollars the writer was surprised to be offered six figures for his property." This value is developed in Seattle and falls due in England.

If this condition prevails to any great extent it not only places local banking at the mercy of outside brokerage, but places locally developed capital in the hands of outside promoters to be used in the development of outside factories to the detriment of the very capital and labor which brought the value into being. The value of the lots being wholly local in development and foreign in ownership, upon sale, evolves into loanable funds which rest as a debt upon the whole community. Just as the community has contributed in giving value to the land, just so must it contribute to the money fund which transfers the ownership to a member of the community, since the local volume of money is a community concern regardless of its temporary ownership. And if the money is not withdrawn at time of sale—the sale taking place during a business boom——the obligation stands as a lien against the local supply of money to be enforced during the first business depression when local banking can least afford to spare the money from the community. Thus local values of local origin and development become foreign funds and debts against the community which gave them being,—unbalancing local commercial banking and, if loaned locally, giving all the appearance of foreign funds being used in furthering local development. Such development under outside ownership acts as a perpetual indebtedness against the productive interests of the community which generates these values,—an outside claim calling for money; and the productive interests must sell abroad more than they buy from abroad in order that the necessary volume of money be maintained and local banking be balanced against outside claims for money.

Any growing city that has much foreign-owned lands within its environs is developing a debt as it develops an increase of value on these lands. This value acts as much like a debt in taking money from its industries as does its outstanding bonds. It is from such values that its taxes

should be drawn, and if taken in taxes there would be no need for bond issues and no danger of unbalanced banking resulting from an unbalanced exchange of goods.

In that commerce which is internationally foreign, as well as in the locally foreign, there can be found the same cause tending to an unbalanced condition of commercial exchange to be reflected in unbalanced banking. We have easily financed the construction of the Panama canal, but we can not finance the foreign trade which the canal is supposed to engender. No, nor do we really finance any of our foreign commerce; that is done in London, even our commerce with countries other than Great Britain.

In a very interesting article for general publication in December, 1912, Mr. Andrew Carnegie called attention to our inadequate foreign banking facilities, but he made a slight error in saying that our laws forbid the establishment of American banks abroad. A little thought will show that our laws can not extend to the control of individuals and properties in foreign countries and can, therefore, only forbid the establishment of branch banks in foreign countries. American capitalists can establish banks in foreign countries and stock them with American cash and credit, but it must be done under the foreign countries' laws and be independent of American banks—even though under the same ownership. While this may be a slight disadvantage, it is not a bar; the real disadvantage lies in the fact that to establish American banks in foreign countries requires that real American money be used in stocking the foreign banks, while it is not necessary for British foreign banks to be stocked from the home supply of money. This fact gives London banking an advantage in financing foreign commerce that can not be offset by any banking laws our government may enact. The cause of this difference is that London banking finances a foreign trade with an import and credit balance of nearly $1,000,000,000 falling due at home each

year, while our own banks—in financing our foreign trade—would be compelled to finance an export and debit balance of about $500,000,000 falling due abroad each year. This condition of international credits and debits renders the money and credits of our banks much safer at home than abroad. In fact, banking adjusts itself more to profits than to localities—domestic and foreign.

In the earlier days, England's natural resources were practically limited to her mines of iron, tin and coal. With these, availability considered, she was the best supplied of any country in the world. Her commerce was compelled to supply her other needs and, going out into a new world of free resources, she acquired at the cost of the taking such natural supplies as would satisfy these needs. In doing this, English investors have acquired recognized property rights in all parts of the world outside of Continental Europe. How these properties were obtained is immaterial, but their present value is material to the financing of foreign commerce. These developing values are foreign to England and local to other countries, yet the developed profit margins are local to England and foreign to the countries where the properties are located. It is with these foreign-developed yet home-owned funds that London finances a world's commerce; each country develops the fund which finances its commerce. Gold is recognized as international money. England produces no gold, yet other money centers look to London for relief in times of money stringencies. England does not obtain this gold from the sales of her manufactured products, nor yet through a favorable balance of commercial exchange, since she imports approximately $1,000,000,000 worth more of goods each year than she exports and sells. The gold is obtained through such power of recognized ownership in foreign natural resources as will compel a choice of what shall be paid for royalty or rental use. It is collected in profits paid on English foreign investments

and not in the sale of English manufactured goods. The people of the United States of America have paid approximately $10,000,000,000 in royalty and rental profits to foreign investors in local lands since 1874. Most of this ten billion dollars has been paid to English investors, and it is with this locally-developed and foreign-owned fund that London finances our foreign commerce and draws on our gold supply.

In the earlier period of our manufacturing development, we were sadly handicapped — as compared with England—by having our supply of best raw materials located inland, far from navigation; that of England was mostly located near the seaboard, and that from her foreign lands came from the seaboard of the cheapest lands and from cheapest labor of the whole earth. While England was looking to foreign lands for raw materials and making investments in natural resources, we were breaking into a world of natural resources so abundant that we were willing to give titles for little more than the asking and without conditions as to use in ownership.*

English investors, being more appreciative of natural resources than were our grandfathers, were very willing to receive titles to all the lands obtainable at a next-to-nothing price. As our industry and increasing population developed a growing value to these foreign-owned lands there came to be certain foreign funds available for loans to assist us in making these lands still more valuable. But this principle has been covered in Book II, Chapter V, on "Our Foreign Trade," and is mentioned here in

* It may not be commonly known that, in framing the earlier laws regulating the management of the public domain, mines were reserved to be worked on royalties paid to the government. Such law and management was in force until about 1847, when Horace Greely, having become interested in Lake Superior copper mining, went before Congress with such a convincing argument as to succeed in having the law so changed as to allow the same freedom in owning and using mineral lands as with agricultural lands. So we started right, but one of our greatest reformers brought about the present condition of mine ownership.

connection with financing foreign commerce only to show our real difficulty in establishing foreign banking funds.

Just as New York exchange is always at or above par in any section of the United States, so is London exchange always at or above par in any section of the commercial world. Go into any section of the United States and you will find the local community engaged in developing values on speculative investments owned in New York. The local community generates the values; New York owns and receives them. And, too, from every section, men who have accumulated property by the rise of land values remove to New York and the margins on their properties fall due in New York instead of in the community which generates these values and margins. No matter where the property, no matter who or what gives it its value and pays the margins on the value, the margins due and paid go to the owner, whether in New York or London. So, with every section of the country developing profit margins falling due in or near New York, and with these profit margins collected and handled through New York banking, it becomes an easy matter for New York banking to finance the commerce of every community and the railroads serving every community; but, it must be observed, this is not done with funds generated in New York. New York exchange is at or above par in every section of the country because every section is paying tribute to New York and to receive such exchange is to relieve the necessity of paying in money drawn from the local supply.

As with New York and this country, so with London and the whole commercial world. New York exchange may be above par in San Francisco and at discount in London at the same time. The premium and the discount represent margins on unbalanced banking, San Francisco owing a balance to New York while New York is owing a balance to London; yet London has done nothing for New York and New York nothing for San Francisco. These

unbalanced commercial and banking conditions represent nothing except speculative margins on land values which are left for productive interests to balance by their commerce. California was the source of a great supply of gold; New York produced no gold, yet has more gold than California and still more due from California. California is wealthy, but much of her wealth is owned in the East. Of gold and produce, she has sent over the mountains and around the coast many times over what has ever come to her; even the insurance received by San Francisco in her time of great disaster was but a small part of what has been taken out of the state on speculative land value margins. New York is the commercial gateway of the greatest wealth producing country of the world and, while she collects tribute from the whole of that country, she must helplessly view hundreds of millions more of commercial products go out of her gates than foreign commerce brings in; in addition, she must helplessly send out a surplus of gold as if to pay tribute for the privilege of exporting a surplus of the country's best products. This surplus export of products and money is necessary in maintaining a banking balance—a balance which is continually tending to lopsidedness on account of the speculative profit margins paid to foreign investors in our lands. Our population and our industries create these values and then we send out our products and our money to pay for what we have done.

Banking has evolved from commerce, not commerce from banking. It must have a commerce to finance or there will be no banking. All changes of methods and systems in banking have but followed the evolution of commerce. Commerce must plan for itself; banking can not plan for commerce, it must follow and support it by balancing its credits and its exchange. If banking laws do not suppress commerce, then they do not suppress banking but may check a temporary profit to brokerage

banking by preventing the exploitation of commerce. The "clearing house" of banking came by evolution and not by financial planning; it came from the mechanical mind of a clerk, sorting checks and drafts and not from the mind of a financier. Who could have planned and foretold the evolution of the clearing house? Who can plan and foretell the ultimate effect of laws intended to extend banking in advance of commerce?

The commerce of Great Britain and the commerce of the United States have been evolved along different lines. Great Britain necessarily looked to the world at large for her supplies, and so developed the most available natural resources of the world; this required a world-wide commerce and Great Britain's banking followed her commerce. The United States naturally looked to her own resources for supplies, and so turned to the interior of her domain and developed her own natural resources; thus, being self-contained in resources and commerce, banking became local. In the United States, internal development has been superinduced and even compelled by high import duties on whatever could be developed from home resources. Thus, with Great Britain foreign commerce was a necessity, with the United States a convenience; and, as necessity is a greater force than convenience, England has been forced to develop the natural resources of the outlying world and support such development with a banking system. So, for the capital of the United States to establish foreign banking to assist its foreign commerce would be to set convenience into competition with necessity. Convenience must have a clear profit margin, while necessity will continue in the face of actual loss. But in the United States there is a growing necessity for foreign commerce—a foreign commerce that can export and sell abroad more than is imported and consumed in order to pay the profit margins on local foreign investments without the loss of a money volume that would unbalance banking.

Much has been said recently concerning our trade with South American countries, and Mr. Carnegie—as previously mentioned—properly deplores our utter lack of foreign banking facilities. But, it must be observed, the trend of investments has always been along lines that would develop the quickest and largest margins with the least outlay of capital and effort. In the United States the best places for investment were the cheap lands in the back yard; in England and Germany the best places for investments were any back yards that would produce what was needed at home. So while we were investing in and developing our interior resources, England and Germany were investing in and developing the natural resources of South American countries. All were following the lines of least resistance and quickest profits in supplying urgent needs. As their South American investments began to develop profit margins to be taken to their respective countries, there developed in the South American countries certain bases of value on which to found English and German banks, for these developed values needed banking to collect and handle their profit margins. The real funds forming the base of the banking are not sent out from Europe; they are of local development in foreign ownership, and as foreign in nature to the commerce between the two continents as is South America foreign to Europe. These funds represent (in fact, are) the land values of South America rather than its commerce with European countries. Being European owned, while of South American development, the use of these land value funds has all the appearance of European capitalists financing South American affairs—when, in reality, it is South American values financing European capitalists.

The idea can be illustrated by quoting from a news article in a Sunday paper which reads in part: "'Tex' Rickard, the prize fight promoter, has recently invested in 8,000,000 acres in Paraguay where he intends to operate

a large fruit and timber farm with the view of holding the property for the immense increase in value expected in the near future."

If current reports are at all reliable, Mr. Rickard's finances would have been very low if the sporting element of the country had not responded liberally to his Reno entertainment, and if this is so he could not have taken many millions to Paraguay—with which to finance that country. But if he can sell at the small margin of $1 per acre, the country of Paraguay will have nicely financed our genial "Tex." The price of the land must have been next to nothing per acre, so that almost any fair selling price would show several millions in profits. If the sales are made on usual time payments, such as are customary in selling lands, the interest-bearing obligations should make a very convenient fund on which to base a bank to finance our prospective trade with Paraguay. But Mr. Rickard's investment isn't ripe enough for picking.

The relatively few investments in South American resources made by United States capitalists, and their comparative recency, will scarcely insure any appreciable volume of funds developed in South America and falling due to United States investors. This lack of funds—that is, funds generated by land and royalty values and independent of commercial profits—would place any banking by United States capital at disadvantage in South America if in open competition with English and German banking. And this disadvantage would be increased by the balance now falling due from the United States to foreign investors in her resources.

The force which controls commerce, both home and foreign, is the force which controls natural resources. Banking must be adjusted to it.

Practically, London exchange is to the commercial world what New York exchange is to the United States. English investments in all parts of the world are generat-

ing margins which London banking must gather and commingle with the funds of commerce. Whether these investments are in productive lands, in private loans represented by bonds and mortgages, or in loans forced upon irresponsible people so their resources and their trade may be controlled, is a matter wholly immaterial, but the funds falling due on these investments must be distinguished from the funds and profits of commerce. England lives indirectly on her home products and directly upon her commerce. Goods go out to every part of the world and from every part of the world goods are obtained and brought in; but, in order to balance the debits and credits of banking, more goods must be brought in than the value and profits of those sent out. This excess of imports over exports, being the margins on English foreign investments and, therefore, foreign to home production, acts as an embargo on the home manufacturers by not allowing them a market equal to home consumption. As the margins on these investments form the basic funds of London's foreign banking, in order to maintain a working balance in banking and collect these funds it becomes necessary for London banking to finance foreign products and commerce even though detrimental to English manufacturing, since banking fails if its securities fail.

So we find a financial condition in which London banking must finance more or less of our foreign commerce even when in competition with English foreign commerce and detrimental to their manufacturing, since the profit margins on English investments in our resources depend upon our commerce, rather than their own, and must be collected through their banks. To finance their own investments compels them to finance our foreign trade, even with South America and in competition with their own commerce, because their profit margins can not be realized until that of which they form a part is fully realized upon. While the profit margins on landed investments

constitute first costs and can be the first to be cashed in when investment and ownership are local, yet, with foreign ownership, collections through international banking can obtain only when international credits and debits balance in banking. It was to maintain the value and margins on English investments in the United States that caused the Bank of England to hold discounts at a point permitting gold shipments to New York banks during the panic of 1907. It was not because of international financial courtesy, for they had urgent need for gold and could have protected it by raising their discounts, but that their own interests compelled that gold be put into our weakened market to sustain the value of their investments and enable them to collect their profit margins. An English writer, in a recent article on the uselessness of war between the two countries, said that "while we (England) could destroy their (United States) fleet and bombard their coast cities, yet we would be destroying our own property which our insurance companies must pay for."

This is not presuming that United States capitalists have less of wealth than those of Great Britain, or that they have no foreign investments that may in time develop profit margins which, developed abroad and falling due at home, will tend to more nearly balance our foreign exchange. It is a well known fact, that United States capital has been going abroad in large investments during the past few years, but not in amounts that have materially affected our excess of $500,000,000 of exports over imports. Some writers have assumed that all of this excess of exports is but foreign investments and that it represent profits on our foreign trade, but a little thought and comparison will show the fallacy of such ideas. Since 1874, our excess of exports over imports has been more than $10,000,000,000 and includes an excess of exports of coin as well as of merchandise. This ten billions is fully

equal to the total value of our manufacturing capital—exclusive of the land value which it owns but does not use. When we consider the immensity of our manufacturing capital, it must be evident to any mind worth appealing to that we have no foreign investment equaling even one-fourth of such value. There has been no object in foreign investments,—local opportunities being more attractive, both in convenience of supervision and in prospect of profit margins.

With English investors it has been and is different,—necessity forcing them abroad to obtain what their own country lacked in supplying their needs. Before our Civil War they had made large investments in our wild lands and, during that war, good English gold was paid for our war bonds; and when, following the war, the Pacific railroads were being financed, there was still more English gold sent into this country and expended in railroad construction. All of this is shown in our excess of imports over exports in the years preceding the panic of 1873, since which time foreign investments in our industries and resources have been almost wholly of funds of local development and foreign ownership. In financing railroad construction between 1850 and 1876 (dates and figures not asserted to be exact) approximately 192,000,000 acres of land was set aside by acts of Congress to be given as bonus, without after considerations, to encourage railroad promotion and construction. Not all of this land has been patented to promoters on completion of their projects, some being yet held in abeyance, but some other, especially in Michigan and Wisconsin, was patented to promoters without anything being done beyond a survey and an effort to sell bonds to pay construction costs. And it can be truthfully said that certain beneficiaries of land patents, without fulfilments of any considerations, have been elected governors of their respective states, held cabinet positions and seats in the United States Senate, and this

without question. Government reports do not agree concerning the aggregate granted for railroad construction, as much of it was granted through various states for internal improvements and became mixed with canal appropriations; but a conservative estimate can not place the acreage so patented very far from 160,000,000 acres—or more than will equal six times the acreage of Ohio.

Nor is this matter mentioned here to censure those who then constituted the government, nor those who were more than willing to accept all that might be given them. At that time, public sentiment was in favor of internal development and the land had practically no selling value, while to accept everything lying around loose is a trait common to humanity and many who condemn do so because it was not they who were the beneficiaries. It is the after-effect, the present effect of the selling price of these land grants entering into banking balances to the disturbance of commercial exchange that should be considered.

These land grants were made at a time when large quantities of foreign funds were being invested in our depreciated government bonds, which were the most attractive government securities ever offered on any exchange. Foreign funds invested in our bonds, at less than 40 cents on the dollar and quickly rising to par, then shifted to railroad construction, which carried a bonus of 160,000,000 acres of government lands; this constitutes the base of disturbance in our foreign commerce and banking exchange. It is fairly safe to say that if it were accurately determined just how much of gold and surplus of merchandise has actually entered the United States for permanent investments in government bonds, railroad securities and land titles, it would be found that we are now sending out each year, in profit margins on these investments, as much in gold and merchandise as the total of all that ever came into this country for such purpose.

But what came to this country for the purpose of investments must be distinguished from the re-investment of the profit margins on the original investments. With government bonds doubling in value within five years, with railroad bonds purchased at 80 cents and going to par on completion of roads, with railroad stocks given as premiums on the bonds and with most stocks representing nothing but promotion premiums and rising to par, and with millions of acres of land rising from no cost to prices ranging from $10 to $1,000 per acre, according to location and purpose of use, the original investments were developing profit margins very rapidly.

In all of these investments, from depreciated government bonds to the 160,000,000 acres of land grants, foreign funds were jointly invested with local funds and have increased in value, by local development, to such extent that it may be stated fairly that no foreign funds have been brought into the country for investments for the past thirty years. If so, they are of a comparatively negligible quantity; the foreign funds invested here during that period being foreign owned only and of local development. And, compared with these foreign investments in local lands and industries, those foreign investments of United States capitalists are a mere bagatelle, and being of recent action they yet have no profit margins that can appreciably affect import and export balances. The handling of these immense funds—funds generated in profit on land grants and railroad promotion—is what constitutes the "big business" of today.

But it must be observed that, when these funds are entered in banking, they bear no relation to the commercial business of the day. To throw the burden of several large land sales upon local banking must have an effect upon commercial accommodations by an increase in the demand for money and an increase in debtor obligations without any increase in the local ability to make pay-

ments. Yet, as land sales usually occur at times of greatest business activity, they have the appearance of adding to business activity, while the very activity which their burden later suppresses is what furnishes the confidence for the extended credits necessary to accommodate the banking strain which finances the land deals. The selling price of land is of the present and must be financed at the expense of present manufacturing and commerce, yet—other than an expense—it bears no relation to present business activity, since its value is based upon the estimated returns coming of future use and business activity. And while high class land value constitutes the most substantial of all classes of security, in banking it is the heaviest load to carry in times of financial depressions, since—while unquestioned in its security—it is a lien upon the future while the urgent demand for commercial needs is of the present. Land value and securities based on land values—acreage, lots or franchises—being related to the future and not to the present, are a matter of brokerage and not of banking, as banking has its origin in commerce, dealing in the funds generated by production and commerce and balancing only when commercial exchange balances.

So, viewed as it may be, it must be evident that the selling price of land, either in payment or as a security, is a disturbing element in commerce and in commercial banking. In local banking it detracts money from production and commerce and compels credit consumption. As between localities, if land value is developed in one locality and owned in another, it unbalances inter-local commerce and throws a burden on the community that developed the value by compelling them to reduce thier money circulation by what must be sent away to pay others for what they themselves have created by their industry. This not only reduces the local volume of money, it deprives them of paying adverse inter-local banking

balances by the shipments of products.

As between a few eastern cities and all the central and western states, there is a constant unbalanced exchange which compels more value of products to be shipped to the East than to the West, and, in addition, this almost constant unbalanced banking condition compels a premium on New York exchange. This all results from western land value development under eastern ownership, thus making the East the home of money and the West the home of a debtor condition.

As between foreign countries, with their strict accounting of exports and imports, the lines of unbalanced exchange are more clearly shown. With the people of one country, developing values on lands which are owned by parties living in foreign countries is to create a debtor condition with the debt increasing by every industrial effort and increase in population. The more the local people do to better their economic and moral conditions and beautify their surroundings, the more they will be owing to the foreign owner of the land to which their labor and quality have given its value. Such profit margins have no relation to international commerce, except to levy tribute and unbalance international exchange and banking obligations.

Land values being an excrescence on population and an obsession on industrial products, necessitating indebtedness and unbalancing commerce, the most logical and effectual means for encouraging manufacturing, abolishing poverty and equalizing commerce with profits to all industries is to absorb land values by taxation. They constitute a natural tax fund.

CHAPTER VII.

ELASTIC CREDIT MONEY.

In considering an issue of "credit money," as much consideration and attention should be given to the nature of what creates the need for such issue of money as to the need itself; and a very careful consideration should also be given to the nature and origin of the security for such money issue, not so much to question its safety as a security but to determine whether its use as a basic security would not put a premium on the very condition which the money is intended to relieve,—the object of the money being, supposedly, to relieve the strain of maturing and overdue deferred payments.

To argue the "quantitative theory of money" would be idle in this connection, yet comparisons are appropriate. With a volume of business between 1885 and 1890 that showed a per capita increase, and with a circulating volume of money that showed a per capita decrease, there was a general decline both in prices and wages. Between 1900 and 1905, with an increase per capita both of volume of products and volume of circulating money, there was a nominal increase of both prices and wages. Each condition preceded a panic. In 1896, for campaign purposes, a western editor wrote a book in which he so ably argued the sufficiency of the money circulation at that time, that he was rewarded by a high position in the Treasury Department at Washington. Following the panic of 1907, in an interview given to James B. Morrow, who has a rare faculty of drawing out the weak and egotistic spots in our great men, this same editor said,

"Currency, and currency alone, could have prevented all the loss and trouble,"—plenty of currency when prices were falling, and a shortage of currency with nearly double the per capita circulation when prices were rising. In his last report as Secretary of the Treasury, Mr. Cortelyou tells of his efforts and success in inducing banks to take out currency to the limit of their bond privilege. This resulted in a currency expansion to the utmost limit before the panic of 1907 was reached, thus leaving no accommodating elasticity for a panic emergency.

With a volume of money in circulation which seemingly accommodated all business necessities, even to advancing prices and wages, what could have been the compelling contingency which demanded a sudden increase in the gradually increasing volume of currency? If the need for money is that of manufacturing and commerce, it does seem that a volume of currency which could sustain an increase of both volume and price should be sufficient to maintain both volume and price; yet, with a full volume of commerce and an apparent sufficiency of currency volume, there came a sudden change so that a month later, with the same volume of currency and nearly one-half less commerce, there seemed to be a necessity for doubling the volume of currency. Was this because of a shortage of currency, or because of an unnatural, artificial demand for currency, a demand impossible of satisfaction?

When one examines into the first starting of a financial panic, it will be found that it never starts in manufacturing and commerce, since they are generating a material increase of material funds which exchange and balance their obligations. Nor is it commercial accommodation loans that become the most pressing and worrisome to banking when the panic is on. Productive properties and interests are fairly certain to respond to their obligations, as their material increase generates funds. But, with speculative interests and investments there must be an

ever increasing price—or certain loss. Whenever manufacturing and commerce show healthy conditions, speculation reaches out in anticipation of increasing future needs.

Without any expectation of material increase from which to develop a profit margin, Mr. A makes a speculative investment in anticipation of higher prices on lands and stocks. Later, he realizes by selling to B at the anticipated higher price. Then B sells to C at a still hivher price, and C may be fortunate enough to induce D to buy him out at a profit margin. By this time, the rest of the alphabet are sitting up and giving very close attention, recklessly willing to invest their last dollar as far as it will go and to give a mortgage for the balance. A and B and C have each cleaned up nice profit margins, and D goes in while all the rest are looking for "sure things" which will give them "something for nothing." Little do they realize that continued profits without material increase must be of increased price only, and ultimately impossible, with all loss falling on the last purchaser whose loss equals the subsequent profits. The last sellers take the last "rake-off." The last buyers, and those who loaned them money, are the ones who start the panic by trying to unload and save for themselves some remnant of their investment.

Higher prices, and higher prices alone, could have prevented all the loss and trouble in 1907. So, if "currency, and currency alone, could have prevented all the loss and trouble," it would have been necessary to expand in volume to supply the 100 per cent call loan demand, and then continue to expand indefinitely, at a ratio that would have equaled the advancing prices necessary to maintain profit margins on investments which had no material increase from which to draw profits. To relieve and indefinitely ward off a threatened panic—coming at the limit of speculative margins—by increasing the volume of currency, would soon have prices advancing at a rate that would

quickly require the expansion of money to be as rapid as Mark Twain's estimate of what was necessary to catch a coyote: "A long-winded streak of lightning."

To continually develop profit margins on non-productive speculative investments is about as logically and physically possible as the exploit of the Chicago carpenter who, shingling a house one foggy morning, discovered after the fog cleared away that he had been laying shingles ten feet beyond the edge of the roof, out on the thick fog.

Since a large proportion of Wall Street's speculative investments are laid in the West, and are developing no material increase, how would it be to coin Chicago fogs into a currency for paying the profit margins, and thus prevent panics by such currency elasticity? It should prove sufficiently elastic. And it should tend to equalize the inter-local exchange of actual values and thus assist in balancing commercial banking, but it would be of no benefit to San Francisco.

In the last analysis, the demand for money—the acute demand which nothing else will supply—is to obtain of the only legalized substance that is recognized in the settlement of deferred payments—and deposits for gambling antes. And the necessity of the demand is the strain and stress of saving the property of the security and the "margin" deposit. So, in considering the necessity for this acute demand, it is more important to first consider what causes the acute necessity.

In analyzing debtor conditions, there will be found three debt creating forces, two being primary and one secondary. The primary forces are: first, the costs of production and exchange, including transportation; second, the cost of land in royalties and selling price. The secondary debt-creating force is interest on deferred payments caused by unbalanced dealings. In analyzing credits, there will be found but one debt-paying force—

the ultimate selling price of all products. Money, being but a medium between these opposing forces and being representative only, can — of itself — neither assist nor coerce; but, as a medium, it may itself be coerced and used to the advantage of the stronger of these opposing forces. Now, in comparing the relative extent and strength of the debt-creating forces and the debt-paying force, with the costs of production—including transportation and exchange—as a debit, and with the ultimate selling of the products as a credit, there must be an even balance between debit and credit, with no strain on money demand. So, with the costs of land added to the costs of production and commerce, there must be a combined debt-creating force far in excess of the single debt-paying force, thus leaving a balance of debit in excess of credit; this, being funded into interest-bearing securities, must fall due eventually with the added interest, and with a strain on money demand in proportion to the volume of these deferred payments falling due.

To view the matter from the point of a demand for money, it is very evident that more money is needed; for, with a volume of money which meets all the demands of commercial requirements, it must be that these deferred payments—being outside of commercial requirements—call for additional money volume. And this is more evident when it is considered that these deferred payments are the results of unbalanced dealings of the past and bear no relation to the dealings of the present—which, unbalancing within themselves, are passing deficits on into future deferred payments rather than paying those of the past. With speculation at the limit where profits are impossible and immediate sale necessary to prevent loss, with deferred payments due and overdue and a money demand pressing for settlements, there comes a demand for money which is entirely foreign to commercial needs and foreign to commercial banking accommodations. It is

a brokerage demand for a currency that will pay the shortage in the dealings of the past generation and at the same time make it possible to discount the future and cash in for present emoluments the estimated profits on the industry of the next generation. The debts of the past generation, falling due coincident with a concerted effort to discount and cash in the estimated profits of the future generation, must result in an increased demand for money, an emergency demand for money to assist the effort of accomplishing the impossible.

With the debt-creating forces exceeding the debt-paying force, there must be a deficit each season to be carried forward on such security as proves satisfactory to those to whom this deficit is legally due. And, as that which can produce a material increase is the only force which can pay debts, this security must rest on productive property and constitute a lien upon its products (income). This deficit, being of unbalanced dealings entered in debits and credits, in being passed on as a deferred payment loses all relationship to the past, since the past can not pay it, and gains no relationship with the future except as a burden demanding payment. This makes of it a matter of investment rather than of commerce, a matter of brokerage rather than of banking, since — being a funded deficit of *decrease* instead of a funded asset of *increase*—it can not be balanced by any commercial funds. Being extraneous in origin and becoming strenuous in its demands, it can be balanced against nothing except bankruptcy or its security,—against loss or foreclosure. Yet it is proposed to relieve this deficit and tendency by an elastic currency with the deficit for security—not actually, but in principle.

Security and availability are seemingly the chief requisites of a credit currency. But the nature of the security decides to what interest it is most available,—to speculation or to commerce, to brokerage or to banking. The se-

curity of its issue, and not the security on which it may be loaned, will control its circulation.

In the last analysis, security must be actual value, and actual value is the product and not the tools and means of production. The value of farms and factories depends wholly upon the value of their products. The value of railroads depends upon these same prducts, as well as do the profits of commerce. Without these products, all values fail. So, with bonds based on mortgages which are based on property values, dependent upon product values, to use such bonds for currency security would be to use as security that which is removed to the second degree from the actual value, to promote which should be the prime object of currency. Products and the management of the means of production lie within the realm of commerce and banking, while the bonds—based upon the value of the products—lie within the realm of investment and brokerage. Commerce and banking depend on quick action and the elimination of costs for profits, while investment and brokerage depend on delays and added costs for their profits. So, with a currency based on industrial bonds, the result would be that the currency would be issued and controlled by brokerage rather than by banking; and in times of business depression and panics it could and would be used in the support of speculative investments rather than in support of manufacturing and commerce in their time of need.

Another angle of view may make this more plain. With industrial stocks and bonds, the different ownership of the stocks and bonds constitutes a joint ownership, one representing the title and the other a conditional title, yet the title carries the responsibility of management with the privilege of profit and the burden of loss, while the conditional title carries no responsibility,—its only interest being security and investment margin. So, while the ownership is joint and the interests mutual, the bonds be-

come a burden to the stocks and to the mangement at times of business depression when the demand of the bonds for interest margins results in loss to stocks by compelling margin payments on one part of the capitalized investment when there are no margins being developed on any part of the investment.

This makes the stocks and bonds antagonistic in their economic relation in profit and loss, the value of the bonds being maintained at a loss to the stocks. In relation to the stocks, the bonds become a deficit. It is at such times that the need for credit currency is the most pressing—a need for the free exchange of product values, that they may be better supported between producer and consumer and thus sustain the value of both stocks and bonds. Yet the use of bonds as the security for the currency would not only enhance their value relative to the stocks and in increased income, but would add to the deficit burden resting on the stocks and on the management by all that the bonds might gain. It would be using a deficit for the security of a currency intended to relieve the deficit. If the bonds were bearing 4 per cent and were used as security for an issue of 50 per cent of their value in currency, with the currency supplying a commercial demand at 8 per cent there would be an increase of 100 per cent in the value of the bonds at a time when the associated stocks were depressed and with an added burden on the products which are generating wages and the value of both bonds and stocks. It would be a gain to investments and brokerage and a loss to production and commercial banking. Brokerage banking would be the real gainer with manufacturing and commerce the real losers. It would increase the debt-creating forces and diminish the debt-paying force. It would result simply in an increase of deferred payments which must ultimately be balanced in bankruptcy or by foreclosure.

It is not wholly due to ignorance that the writer uses the term "brokerage" differently, and with a different meaning, from the common use which should be the recognized authority. But, there being a clear difference between commercial interests and investment interests, distinctions must be made wherever there is clearly a difference, and—as banking has developed from commerce, and brokerage from loans and investments—the distinction made here should be permissible. Then, too, for commission merchants and manufacturers' agents to be classed and class themselves as brokers does not take their business out of commerce any more than calling a pawnbroker a banker would convert his business into banking.

Investments are as distinct from commerce as is the farmer's bin of wheat distinct from the field from which it was harvested. If there be a mortgage on the farm, it represents the price of the privilege of raising wheat and bears no relation to the wheat, for the farm can raise wheat as well without as with a mortgage. A note in bank or an account at a general store may be related to the bin of wheat if what was received was used in assisting to produce the wheat. The note in the bank and the account at the store are commercially related to the wheat and become liquidated and balanced by the sale of the wheat. They form a commercial association, while the price of the farm and the mortgage are of an investment association. If the mortgage was incurred in assisting wheat production, it would be related to the wheat that it assisted to produce; but the mortgage would stand as a deficit in wheat production if the wheat failed in paying for the assistance, and as a deficit it would stand—as a cost lien on future crops—and so become a burden instead of a help to production. The mortgage would be no less in security as a lien on future wheat crops than if paid from the present, but it would be shifted from commerce to investments and thus change from a commercial asset to a collateral security—

a matter of brokerage rather than banking. While the security of the mortgage would depend upon the certainty of future wheat crops, therefore upon wheat, to use the mortgage as a bank collateral security on which to base a currency would be but an indirect security based on wheat with the profits on the currency issue resulting to the benefit of the mortgage investment rather than to wheat production. Instead of a currency based on mortgage security, based on farm values, based on crops of wheat, why not base the currency directly on the wheat? Then apply the same principle to factory products and thus reduce the costs of production and the profits on obstruction.

The indirect way of doing things is always the most expensive and leads to the most trouble. A small rural inhabitant was seen at dusk over in a neighborhood away from his home. On being asked his name and where he was going, he replied that he was looking for his father.

"Is your pa over this way somewhere?" he was asked.

"No, but he will be, after he's looked everywhere else for me."

Some proposed methods of supplying a currency for commercial needs are as indirect as was the little fellow in finding his pa. They would compel production and commerce to hunt for and pay the expense of finding the currency instead of having the currency associated with the products.

It is a notorious fact that the brokerage control of loanable funds now exacts higher rates on the best commercial paper than on speculative investment loans. The reverse of this is true with English and German banking.

Farms, factories and railroads are not articles of commerce, nor should their indirect values—resulting from products and services and indirectly represented by securities—be used as a basis for a credit currency; currency so secured would be absolutely controlled by in-

vestment manipulation and through brokerage loans instead of being controlled by production and commerce through commercial accommodations. The use of railroad bonds for currency security would remove the control of the currency further away from productive interests than would the use of farm and factory securities, as, in the case of railroads, both bonds and stocks are a matter of speculative investments, and the manipulators of these investments would have absolute control of all currency issued on what they own and control. It would be equivalent to presenting them with that much money to be loaned to commerce or used in their own interests,—which latter would be the case in every business depression when production and commerce most needed money.

In English and German banking, such paper as most nearly represents actual value in staple products, in storage or transit, constitutes the most desirable of commercial securities, since they are the most certain in liquidation and in banking balances. Therefore, commercial loans are made at lower rates than are investment loans, since active products have proved more reliable than idle investments. But there is one important difference between English banking and the banking of the United Sates which should not be overlooked whenever the two are compared. This difference is more nearly fundamental in the nature of what the banks are called upon to do than any law or lack of law, intended to control and regulate banking in either country.

Banking evolves from commerce, develops with commerce, assists commerce and, wherever commerce may go, banking will follow; but banking must develop along the lines of commerce and adjust itself to such funds as commerce may develop in equalizing the distribution of various products.

English commerce—like the commerce of earlier New England—developed along the lines of necessity. The re-

sources of the country being unbalanced, the balance had to be gained through commerce with other countries which had an abundance of what was lacking, or too high priced, for home use in supplying necessities. As earlier English—and New England—commerce required a shipload to be sent out for sale or barter, and required an intervening space of time—possibly two or three years—for the supercargo to sell or barter the load of goods, it often required the combined resources of a community to finance one shipload. In the earlier days, it was not at all uncommon for an interior village to charter, or even buy, a ship and combine their entire resources—representing one or two years of labor and self-denial—that the ship might be loaded and sent out to bring back that which meant comfort and wealth to the whole community. One of the most prominent and trusted of the village inhabitants would go out with the load as supercargo, or business manager, and months would grow into years before the ship would return laden with the profits on all the toil and waiting. On presentation of the bill of lading, Lloyds would insure the cargo, and if the local community became too hard pressed for sustenance, London banking would make a loan on the bill of lading and the insurance—the insurance being based on the value of the goods, its rate varying with the probability of loss by wrecks, pirates or war. As commerce developed, there grew up great mercantile houses that assumed the responsibility of foreign trade by buying or making advances on products designed for such trade, thus relieving the smaller communities of the shipload strain which necessitated months and years of toil and destitution while awaiting the returns of their products. And the word "returns" had a real meaning in the earlier days of commerce.

As production and commerce developed, banking also developed along the lines of commercial needs, handling the funds developed by commerce and combining the com-

munity of commercial interests so as to render them more liquid and available to points of greatest need in floating products until returns were realized. Products from home resources, when exchanged for the products of foreign resources, resulted in a balanced economic condition of home requirements and employment to labor. The products, therefore, were the prime and the ultimate object in both commerce and banking. The element of speculative investments was practically naught, as England's lands were being rented instead of being sold,—which left land value development a negligible quantity. With the welfare of a whole nation depending upon her products and her commerce, the substance of commerce obtained and held the first and highest consideration in its demands for the use of funds. The products and the commerce gave all else its value.

Then came the development of foreign investment values. At first, the returns on these values resulted to the general benefit of all of England's productive and commercial interests by (1) giving English interests a control of foreign resources, and (2) by developing English-owned funds in foreign localities to finance the foreign end of commerce in each foreign locality where these investments were developing funds. At first, the profits on these investments strengthened and assisted the home industry by placing funds at the far end of the exchange, thus relieving the home capital of part of the burden by shortening the time over which it was compelled to sustain the unbalanced exchange.

Where formerly the shipload had been sent out to seek a market and barter for a return cargo, the profit funds on the investments would now be able to take over the shipload from home and re-load it for home, with a great saving of time between the outbound sailing and the return. But, with further development of these investment profits, a change came in English commerce. To main-

tain the value of these foreign investments, more goods had to be imported than the value of those exported, thus supplying a part of the inhabitants with foreign goods obtained with these profits, to the detriment of English wage earners who should have been allowed to produce in equal ratio to home consumption. While this feature of English commerce has been mentioned in another connection, it is here mentioned to show how English investment interests are made secondary to commercial interests.

The fundamental nature of English commerce, with the banking funds evolved from its good will and the products being exchanged, compels that investments be second to production and commerce. The reason for this is that, until quite recently, practically all of English speculative investments were foreign, with profit margins being collected and returned to England through commercial dealings. To collect in international money (gold) would unbalance a world's money distribution and thus unbalance commerce, with the result of destroying the profit margins. So, to collect these foreign profit margins, it became necessary to convert them into marketable products such as the foreign country produced, and exchange them in any market of the world until converted into such commodities as the English home market can assimilate, thus delivering the foreign investment profit through the home market. This necessity for converting investment profit margins into marketable products places a premium on insured bills of lading as banking assets. And, too, the foreign local needs are compelled to finance these speculative investments in connection with their own industry and development, thus relieving London banking from the necessity of financing anything but commerce. Yet, in collecting these profit funds, London banking is compelled at times to finance foreign commerce of other countries which is in open competition with English products.

Since the passing of the earlier days of New England and Atlantic coast commerce, before inland resources were opened, the commerce and banking of the United States has developed in association with speculative investments. Seemingly, our greatest burden was unowned resources, and our greatest hobby their development. We have been more anxious to develop new states than to develop commerce between localities. In every instance, whatever has been done in dredging rivers, digging canals and constructing railroads in our sparsely settled sections, while in the name of commerce, was always in the interests of settlement development with the profits coming from land speculation instead of from commerce. To raise the selling price of land before the settler came on, and leave to the settlement the burden of developing a commerce to pay the price, has always been our commercial policy. While the ostensible purpose of municipal booms and bonus funds are for factory and railroad inducements in the development of commerce, yet the most active workers in these booms are the real estate owners and dealers with the motive of land sales and higher rents. The selling price of land develops funds by the mere sale on partial payment and mortgage security.

Such funds have formed the basis of much of our banking. Production and commerce always have and always must furnish us with active, debt-paying funds, yet the price of land and the value of franchises have always furnished our basic funds. So with bonds and mortgages —representatives of dormant land and franchise values— as a basis for banking, whenever a depression comes in commercial activity, that which constitutes our basic funds requires more active financial attention than does commerce, because the products of commerce are available in the present while the value of land and of franchises are but liens upon future products.

Since the fundamental difference between English banking funds and those of the United States lies in the difference between the dormant funds of mortgage and bond securities and the active funds of commercial products, it may be well to re-state a previous analysis:

The selling price of land, while estimated on present production and conditions, is wholly a matter of the future so far as realizing from its use is concerned. Even if now put to its best use, the income from its use—only a small per cent of selling price, either in rents or products—is all that is available for the present or near future if not yet due. The selling price of land being but an estimate of its future producing force, it must be evident that it is wholly a matter of the future which has been discounted in the present; therefore, a mortgage based on the selling price and representing a part of it, can be nothing but a lien on the products which are estimated will be taken from the land in the future. Even a foreclosure and the taking over of the land would not be a realization on the terms of the mortgage. So, while land may be the most substantial of all securities, yet it can not be depended upon to relieve a financial condition demanding quick action in saving values. A mortgage bearing 6 per cent interest and secured by productive real estate of three times its face value should be considered a high class investment but dangerous as an asset in commercial banking, since, in an emergency, only $60 in each $1,000 would be available in a whole year without unusual action involving loss to banking,—and then only by shifting available funds from one point to another without any increase in such funds. If liquid funds were available to relieve the dormant value of the mortgage security, then they would be equally as available independent of the mortgage security.

In contrast with mortgages and bonds as a basis for banking funds, compare active and actual values in staple products:

Suppose a manufacturer sells to a dealer, say $5,000 market value of staple goods on sixty days time, draft or note. If draft, the manufacturer draws on the dealer on shipment of goods and the dealer writes "accepted" across its face with date of payment and his signature. If note, the dealer sends note according to terms and the manufacturer endorses it for bank deposit. In either case, the worth of both manfacturer and dealer—one at each end of the deal—is backing the value of the paper, while between the two is the actual value of the goods at wholesale price to develop into retail price with a consuming public backing the whole,—four securities on sixty days time, retail price covering all costs, public demand insuring sales. That is the security of commercial banking paper. Thirty, sixty, and ninety day accommodations give an average of sixty days for banks to realize on such assets.

Now, suppose that in a time of busines depression the bank could realize only 75 per cent on this asset, or $4,000 within the sixty days, the balance being renewed. This would mean a realization of $4,000 in sixty days on a $5,000 asset, while with 4 per cent bonds as assets it would require one year to realize $4,000 on $100,000 of assets without any renewals. This is really the difference in the fundamental nature of English and German banking funds as compared with those of the United States. Their banking assets are the values of staple products; ours are dormant land values. While we may have a slight advantage in point of actual security, they have a 2,000 per cent advantage in point of actual liquidation. They can safely do business on a waning volume of currency while we are constantly in need of an expanding volume.

This must not be taken too literally,—but, rather, relatively and proportionally. Yet, in another way, our banking is called upon to balance and assimilate more of dormant funds than is the case with European banking. To a much greater extent in the United States than in

Europe, land is subject to sale,—though not as commercial commodities, since the selling price of land does not balance the selling price of other lands, as is the case of products in commerce. With commerce fairly balancing and production consequently active, a large sale in lands will unbalance banking funds and thus unbalance commerce. In the United States, it is a common matter for the full selling price of lands to be drawn from local banking funds and sent to another locality, while in Europe it is rare for more than annual rental value to become a matter of banking. While our speculations and commerce are indiscriminately mixed in banking, English speculation is foreign and becomes liquidated by foreign banking before being handled in English banking. There is another use of funds in the United States, not so common in Europe, which tends to increase strain on banking at times of business depression. This is the creation and use of what, for lack of any other name, may be termed *superstructive* funds; that is, funds consisting of bonds, the sole security of which is the name of the underwriter. While the name of the underwriter may be sufficient as security, with such security resting on other bonds—which depend for value upon the salable products of mortgaged property—the funds are really superstructive or epiphytical in their origin.

For instance, a party possesses a valuable patent or water-power right or public franchise, but is lacking in the necessary capital for building plant and carrying on development. Taking the matter before some responsible brokerage bond house, an arrangement is made for the sale of bonds, issued against baseless stock, underwritten by the bond house. Whatever may be the terms, the value of these bonds are based upon whatever other bonds and stocks are owned by the underwriters, and is so considered by those who may buy them as investments. But, in constructing the new plant, a foundation is de-

veloped under these epiphytic funds and, the new industry paying dividends, they come to rest on their own base. Bonds representing such funds are too common in general development for special notice, yet—in times of extreme business depressions—they are a source of great danger to commercial banking, for their weaknes or failure may cause a hold-up or failure in large quantities of construction materials and supplies on which accommodations have been granted. Then also, next to speculative investments in dormant values, these immatured funds have the greatest need for an issue of elastic credit money at such times. So it can be readily conceived how great would be the advantage to a brokerage bond house to lay its foundation in the highest class of bonds, then use these bonds for the basis of their underwriting security and also for an issue of elastic currency. And all this to be based on the value of products yet to be produced. With all values based on salable products of the present and future, one might work out a rigmarole as interesting as the old story of "The House That Jack Built."

Here is the product yet to be produced. Here is the road to carry the product yet to be produced. Here is the value of the road based on the profits of shipping the product yet to be produced. Here is the bond on the value of the road which is based on the profits of shipping the product which is yet to be produced. Here is the currency secured by the bond which is based on the value of the road which is based on the profits of shipping the product yet to be produced.—And so on through the process of superstructural funds with margins on underwriting, interest on the bonds, interest on the currency, foreclosure on the property, and the redemption of the currency.

But make a distinction between banking and brokerage, and in considering a credit currency, estimate the difference between the debt-creating forces and the debt-paying force, also which should be most encouraged.

Chapter VIII.

THE MONEY TRUST.

During the 1896 campaign, the Secretary of the Treasury, in a document for campaign information, said that a man's credit was as much a purchasing power in buying and selling in his community as was his real money. In the same campaign and to the same purpose, a noted Chicago professor writing for the Chicago *Herald* asserted that money, even, was not a purchasing power, since a man must have something to sell in order to buy money. There is no record where these two gentlemen met after the election to congratulate each other on the triumph of the principles of truth. With such extreme views emanating from learned exponents on one side of an economic controversy, to quote from the other side might result in an inextricable muddle; so, between these extremes, we will look for the power of the "money trust" —if there is such an aggregation.

Between the possible condition where credit is a purchasing power and the positive condition where money is not purchasing power, there exists a wide field for both manipulation and investigation. While it might be possible to corner and control money, it would be very unprofitable and even dangerous, as witnessed by the experience of any bank which has been visited by a run on its deposits during a panic. With bank deposits, subject to withdrawal, far in excess of total volume of money, nothing but a game of "freeze-out"—resulting in industrial paralysis until a scarcity of products and loss in earnings compels that people pay their last dollars for bare sustenance—can force a concentrated control of money.

During the panic of 1907, the New York banks—those said to constitute the so-called trust—paid unheard-of premiums on deposits in their efforts to coax the money from the hands of the people back into the banks. Had the panic developed into a state of siege continuing to depletion of products, then the money would be drawn from the people, but not to the control of banks. With credits as purchasing power, there must be an active demand with balanced exchange of products or the credits will resolve into deferred payments and become inactive and a burden on commerce and banking instead of a help. So, to control credits in any manner other than to assist in liquidation would react on any combination attempting such control, while to control credits in a manner to assist liquidation through balanced exchange would result in a general benefit to production and commerce with no benefit to credit trust, for, with credits free in balanced commerce, there could be no "rake-off" margins on credits, while anything that detracts from credits shifts them into deferred payments where they cease to be purchasing power.

While loanable funds are always open and anxious for investment, yet they are most cautious in seeking and examining for security which is productive within itself and its management and association. The more perfect the security in its prospect for generating the necessary increase, or the greater its power in forcing a collection of what is being generated by general production, the lower will be the demand in interest margins, since the element of risk must be covered by higher rates for insurance against partial loss from depreciation.

So, with funds seeking loans and investments, it is incumbent upon those to whom these funds are intrusted for such purpose to use every effort and precaution in increasing and protecting the basic securities of loans and investments, which can be done only by facilitating pro-

duction and balanced exchange, rather than combining in restraint of the fullest possible commerce. Therefore, to assume and assert that our greatest financiers are combined in a money trust for the purpose of restraining and depreciating the values and efficiency of what forms the substance and base of their loans and investments is to charge them with incompetency, bordering on lunacy, rather than with the infringement of moral and statutory laws whereby they gain and others lose. For men who are engaged in a certain line of production to combine in that line for the purpose of excluding others and enhancing their own interests would be in accordance with prevailing human tendencies and business acumen; but, with men engaged in such business as comes in contact and associates with all other business interests and with mutual profits without competition, and in reality depending upon others for profits, it seems unreasonable and unbusinesslike to combine in restraint of commerce, since any restraint of commerce would result in diminished profits to themselves as well as to others.

One should reason to the last analysis before making a deduction, and in the last analysis, the money trust, so-called, is more to be compared with a great lake, into which many streams are flowing by natural gravity, than to an artificial reservoir, held in restraint by a dam, with gates to be manipulated by those who have planned and constructed the dam.

A fact well known to all practical men who have pushed great enterprises to successful completion throughout the central and western sections of the United States is that the East is the home of available funds. Old and well established industries may easily find local funds for additions to their plants when their trade has outgrown their capacity, but when new industries on a large scale are proposed, the best that local funds can do is to present a site —through the activity of real estate owners and dealers.

With the site pledged, the plans and specifications must go east for funds or abandon the project. While New York is not the whole East where funds are to be found, yet it is much the larger portion and forms the center of eastern loans and investments. But these loanable and investment funds are not owned by any combination of bankers and brokers, nor any set of men constituting a money trust. The real owners of these funds are scattered from Massachusetts to Maryland, and many of them know as little concerning the basic value of their investments as does a babe concerning the source of its milk supply. The capacity of their minds is so crowded with their social functions and so strained in finding sensational amusements that they must depend entirely upon the judgment of others in all their business matters except in spending their incomes. And they are more often defrauded in their spendings than in their dealings with those great banking brokers whom the country at large looks upon as the greatest swindlers of all time. They have learned to trust certain names when underwritten on securities, and they buy these securities on the strength of their faith in certain names, and it is this faith and such fund investors that form the foundation and backing of what constitutes the money trust.

In obtaining funds for industrial development, there must be something tangible and possible of development. The opportunity must be actual and apparently ripe for the picking, with plans and estimates carefully worked out. A man not wholly "without honor in his own country" may conceive the possibility and profits of watering a desert, of opening up a mining field, of developing a city by building a great manufacturing plant, of giving farming communities better service by constructing an interurban traction line, or of opening up new resources by the extension of railroads, but in doing any of these great things he finds no local funds equal to the needs. So, with his

plans and estimates, he moves onto New York and lays siege to the money market; and, if he is not well known to the commandants of the several fund arsenals, his first move should be to retain some eminent law firm which will advise his method of procedure and act as his ambassador in bringing him and his business before the proper authority. If he starts in right, he will soon work his way into a frigid zone where the size of his diamond, the set of his clothes and the brand of his cigars will "cut no ice." Large funds are surrounded by refrigeration, but proper credentials will make him feel more comfortable than a fur overcoat. If there is a welcoming hand extended to him it will seem like shaking hands with the tail of a cold-storage fish. While he is shivering for the general chilliness of the atmosphere, what he has to offer is subjected to a "liquid air" test and, if it stands the test, there will be a general rise in temperature. If he can show up a good proposition, after a thorough and even scientific investigation, a conditional offer of funds will be extended for his consideration; but one of the terms on which he secures funds will be a division of the spoils. If his project is not big enough to be divided, it is not big enough to be attractive; but the division will vary with conditions, —it may be a premium of from 10 to 25 per cent of the bond issue, or it may be a premium of bonds and a bonus of stock carrying a directorship. Whatever the terms and the amount he is to receive for developing his project, the amount will be available only as his project develops, and will be far less than the face of the bonds which he delivers to the accommodating brokers who do the underwriting. The stock which they also receive is wholly a bonus, while the directorship enables them to fully understand the inner workings of the business management. Yet, with the fairest of prospects, a man may be unable to secure funds, since what he designs to develop may be in direct competition with some other project which the

great brokers have already financed; in which case, he must either enter into a combine with the others or stay out of the field entirely, for lack of funds.

While New York has a host of varieties and degrees in methods and ways of selling bonds, the foregoing is the most certain, the safest and the least expensive when a man has a really good thing. He might sell his bonds by spending half their value in advertising, or he might get some broker to handle them on a 50 per cent commission,—possibly less. And no matter what he may have to offer, he could find some brokers who would attempt the sale, as some butchers will attempt the sale of any kind of meat, diseased or putrid. If they can't sell it in cuts, they will work it up into sausage. Anyway to raise funds,—that is their business.

In making great industrial and development loans, eastern brokers do not permanently tie up their own funds in the bonds they underwrite and handle. Having arranged the details with the party seeking the loan, the underwriting gives to the bonds a full-face value regardless of their purpose or their other security. The names of some of these banker-brokers are names to conjure with only because they are names to bank upon. Their name on bonds creates a *superstructive fund,* an inflation of funds, as completely so as if they had issued so much in bank notes or credit currency. As these bonds become absorbed—digested—in the investment market, the fund of their sale is being employed in developing the proposed constructions which are to give them and their associated stocks their permanent value, thus relieving the obligation burden on the underwriters. If the underwriters have received a bonus in stocks, carrying a directorship—which is common in financing railroads and natural resources—then there results an interlocking directorate among all corporations which they so finance. But

this needs no comment, since it is the funds themselves, their nature and origin, that are being considered.

While the average wage earners have bank deposits which aggregate a very respectable sum, yet they are not investors in securities to any great extent. They tend to extremes in handling their money, either leaving it in bank at ordinary bank interest or risking it on some illusive prospect which is more alluring in the promise of the promoter than in the possibility of realization. Nor are manufacturers and merchants inclined to invest in securities to any extent, since their business interests require their funds, leaving them more often borrowers than investors.

This leaves only two classes from which to expect security investments,—those in the professions, and the owners of estates conducted more in the manner of stewardship than of personal management. But, as those in the professions are inclined to scatter their investments under their own supervision—and at gambling risks—the real purchasers of securities are the owners of estates who give reference to the degree of security rather than to the margin of interest. And as the majority of these have inherited their estates, without inheriting business necessity or business desire, they depend more upon the high standing of certain brokers than upon their own judgment in making investments; so this gives to those brokers who have earned this high standing the advantage of dictating terms to all who have prospects worthy of development. By their intimate knowledge of general business conditions and the thrift of population, together with their facility in estimating the available volume of loanable funds, they are in position to decide when railroad extension should be pushed and when and where large industries should be encouraged and developed. The volume of loanable funds on the one hand, and the needs for the funds on the other hand, creates a condition of extremes in which brokerage-

banking is the medium. This gives all the appearance of a money trust in the hands of these banker-brokers, when in reality they are merely balancing a condition and not creating one. The condition makes them and not they the condition, and the fact that they turn the condition to their own profit is proof only that they are human and not divine. The cause of this condition and why it centers in brokerage-banking is another story relating to the *invisible* funds which have no weight in freight shipments.

Under existing banking conditions—conditions made abnormal by the abnormality of certain funds handled in banking—sound banking requires that large money reserves be held to insure liquidation of funds in times of emergency. Custom and experience—enacted into law—require this, but custom and experience—permitted by law—find it more advantageous for banks in the less important communities to carry a part of their reserves in certain designated reserve cities—the chief of which is New York. In fact, all banking is connected directly or indirectly with New York banking in clearings; therefore, the ostensible purpose of these reserve deposits being to protect checks and drafts from discount-loss in clearings, all banks directly or indirectly carry a part of their legal reserves in those New York banks which comprise the clearing house association.

To make this more clear to one not familiar with the principle of bank clearings, it may be compared with the use of local bank checks. For instance, a man may be entirely responsible financially, yet his check might not be accepted at any bank where he has no drawing account —unless endorsed by one who has an account at that bank. And this principle applies as well between banks and clearing houses as between individuals and banks. If a bank has no open account with a clearing house association, its paper can be given no consideration other than being held for collection the same as an individual check—and at the

same discount charge for collection. So, to insure prompt clearings without discount and collection rates, all banks must have open accounts with clearing house association banks, or clear through some neighborly bank which does have a clearing house association account.

Since the law compels bank reserves, and permits that a part of these reserves be carried in certain reserve center banks, it is found to be very advantageous to bank clearings for banks in all parts of the country to carry a part of their legal reserves in New York clearing house association banks. The advantage is not alone in prompt clearings without discount rates, but also in a small rate of interest obtained on these reserve deposits, which could not obtain if left in their own vaults. All of which would be immaterial were it not for the peculiar fact that these reserve deposits require constant replenishing to prevent their depletion by adverse balances against outside banks and in favor of New York banks. Yet this is not a loss to the outside banks, since they are but handling the business funds of their respective localities, which must pay balances whenever balances are due to eastern investors in their resources. For the banks of the country to carry reserve deposits in New York banks is but to provide funds from their respective localities to meet payments falling due to eastern owners of interests in local development, the nature of which has already been noticed. As the banks can make these deposits out of their legal reserve, it not only gives them the benefit of protecting their paper in clearings, but enables them to discount payments out of their reserves and which would otherwise have to be provided for from their funds over and above their reserves. It is really paying in advance and saving the discount. To place a portion of bank reserves in advance of ultimate dues is an economic gain to commercial exchange by maintaining the parity of local credits in clearings. It can not be condemned as unsound banking.

In the last analysis, the money trust is nothing more than the collecting and distributing agency of non-resident funds; that is, values developed in one locality and owned and falling due in some other locality.

The profit margin funds of non-resident ownership must be developed through the process of local industry and commerce and transferred to the owners wherever they may choose to establish their residence. As "birds of a feather flock together," so do those of similar income derivative seek a mutual association. As every line of industry and science forms its association in mutual tastes and occupations, that mutual interests may be discussed, so do those who have transcended the necessity for thought and occupation choose a mutual association in order that all "shop" conversation may be avoided. So, as eastern investments in western lands have developed into great estates, requiring no business management other than stewardship collections, there has developed a society superior to thought and business worries. Then, as eminent business men of the West have developed great estates and passed them down to inexperienced heirs, in the form of rents and securities in stewardship, these heirs have changed their residence to the East to avoid the smell of their properties and the association of their poorer relatives. This results in non-resident ownership in productive resources by a social element barren in business development, and to such extent as to unbalance local commercial exchange by the total of funds which must be developed and sent to the non-resident owners. Thus the last degree of industrial impotency becomes the most potent factor in unbalancing commerce and the most erratic burden on commercial banking, requiring larger reserve funds and more idle money. This is also the foundation of the money trust.

The certainty of the "law of averages," working through an unbalancing commerce, brings to New York

brokerage certain funds which can be restored to circulation only through the medium of loans and security investments. These funds come from every part of the country as water flows to the Gulf from every part of the Mississippi water shed. They are largely the profits on speculative investments, the "unearned increment" which rests as an unbalancing cost and debt burden upon every community that has developed a better condition and a better commerce by its industry.

The burden of generating these funds rests most heavily upon local manufacturers whose costs are increased by the higher royalties on raw material, and by the reduced market for products,—all caused by the funds of the community being absorbed through higher land prices.

The certainty of this flow of funds to non-resident owners renders it an absolutely safe banking proposition for the local banks to carry a large part of their legal reserves in New York banks. The "law of averages," and the certainty that these reserve fund deposits will ultimately be absorbed by the dues from the country at large to eastern investors, render it an absolutely safe gambling proposition to use these deposit funds in financing industrial developments in the very localities which developed the funds so deposited. Those to whom the funds fall due will invest in the securities later and balance the brokerage condition in New York, leaving the premium bonds and the bonus stocks—carrying a directorship—as net profits to the brokers and an added burden to the community that generated the funds its industry has borrowed. Borrowing back the funds which a community has generated enables the local bank to maintain a balance between outside debits and home credits, also its reserve deposit in New York banks.

On a broad principle of economic development, it can be logically asserted, every community can easily develop all funds necessary to finance any industry that can pos-

sibly show a profit,—provided, always, that no funds developed by the community are absorbed in unearned increments and taken away by non-resident investors in local lands, franchises, or other natural resources. The necessity for the Middle West to engage industrial development funds from New York is about as economically logical, under natural conditions, as to irrigate the lands of Iowa and Minnesota with water pumped from the Gulf.

The money trust is not the gravity force that takes the funds to the East, it is only the machine which pumps the funds back to the place of origin in order that they may irrigate—or lubricate—the industry which developed them.

Any attempt to regulate the flow of funds by legislating to control the money trust would be as ineffectual as trying to give the cities on the upper Mississippi purer water by putting a filter in the river below New Orleans. Also, to attempt the regulation of money circulation and commercial loans by creating a central bank empowered with the control of currency would be as effectual to that purpose as to construct a lake of pure water in which to drown fish.

The most logical remedy yet proposed—one that will balance commercial exchange, equalize money circulation, insure profits in manufacturing and markets for products, with an advance in wages and a reduction in the costs of living—is to absorb land values in local taxation.

To do so would keep locally developed funds at home to finance local industry and pay local wages instead of being drawn away to feed the money trust, and loaned back to increase the future burdens of the community when falling due.

There may be other and better remedies yet to be proposed. The main thing now is to recognize the cause of economic troubles. With the cause fully recognized, the right remedy will follow as naturally as trusts and poverty have developed under present economic conditions.

It isn't necessary to kill a dog to rid it of its fleas.

Chapter IX.

REDEEMABLE CREDIT CURRENCY

In political economy, those business interests which are in decadency and tending to obsolescence are, next to conflicting financial interests, the most difficult to measure in fair consideration. The trouble with decadency arises from the fact that decadent interests impel self preservation by attempting to prevent economic evolution. Financial interests in decadency must oppose or unload upon those in the ascendant, or else suffer loss. This being a matter of self preservation, it becomes a part of natural law and therefore, a matter to be condoned rather than condemned.

With the development of greater security in commerce, there is a tendency toward decadency and possible obsolescence in the necessity for intrinsic value in money. There now is evidence of a tendency to such *monetary nausea* against the acceptance of gold as formerly existed against silver, and which led to the demonetization of silver. Many men, believing that both gold and silver should be demonetized, consistently supported silver coinage in their belief that both should be retired together without discrimination in favor of or against either. Modern commercial activity requires active money, with flexibility rather than elasticity. This requirement has forced gold into the security class, yet—as a security—it can be no more to the purpose than bonds which command a premium over gold in the open market.

The only advantage that gold, as a security, can have over bonds which command a premium over gold is that

in times of financial distress the gold is legal tender while the bonds are not; yet, since financial distress comes only with unbalanced commerce resulting in unbalanced banking, to so regulate costs as to maintain balanced commerce would eliminate financial distress and, therefore, the need of gold as security and legal tender. If the use of gold as money is tending to decadence, it is but natural that those who have large financial interests invested in gold should use every effort to retain its coining value and its monetary use—or, as in the case with silver, unload the responsibility of gold values upon the people at large through the medium of the national Treasury. For the government to become custodian and the eventual owner of the national supply of gold would relieve personal loss if the mechanical demand for gold failed in sustaining its coinage value. On the broad principle that the government is the people, the economic loss—if any—to the government in the coinage value of gold would be balanced in the gain to the people of lower priced gold for mechanical uses. But this is intended only as a consideration of a contingency in commercial evolution, and not as a prediction or even a suggestion that gold be suspended in monetary use.

From whichever point the matter is viewed, gold is not a convenient or profitable currency. It is too expensive, costing but a fraction less than 100 per cent more than paper currency based on security that will command a premium over gold in the open market. As a security for paper currency, gold can not exceed its coin value, while to use it as such security is to lose its economic interest as money, since its paper representative will command no advantage in interest or discount over currency secured by what commands a premium over gold. As gold represents a 100 per cent cost to the owner—the borrower—and in circulation, for it to remain idle as a mere security must result in a loss of interest by inaction, since the actual investment lies in the gold; while with paper cur-

rency, secured by bonds, the investment lies in the basic value of the bonds, in which case the currency can remain idle without loss in interest on investment principal.

In a sense, gold lies in pawn. It is an idle investment lying in pawn as a security to meet contingencies which occur only at rare intervals, and, if a contingency occurs, the gold will be so hedged and guarded as to render it impossible as a currency when currency is most needed in commerce. It is much as it might be with a farmer who, using a team of two horses, keeps a third horse in the barn to meet the contingency of an accident to one of the team; after years of feeding the contingency occurs and demonstrates that the reserve is too balky to do the necessary work. Just as the cost of feeding the reserve horse, together with loss on idle investment, will exceed the price of the horse, so has the loss on the idle investment in gold exceeded the full value of all gold which was in use as security in 1888.

This may seem a rash statement, but consider it fairly. Take the gold existing in the United States in 1888. Compare it as security with bonds which command a premium over gold. The gold constitutes an investment which is unelastic and just equals itself. The bonds represent and are a first lien on an investment several times their face value. The gold is rigid, non-productive, and inactive as security. The bonds, not being the real investment, represent activity which produces their interest margin. Gold being the investment, when used as security, the whole investment is idle. Bonds, not being the real investment, when used as security cause no part of the investment to become idle. As the gold certificates in circulation have no advantage as currency nor as security over national bank notes and treasury notes, it must be deduced that all gold lying in pawn as security is but idle investment, since no advantage to commerce is gained by such use. Therefore, with the gold of 1888 lying in

pawn for fifteen years on a 4 per cent basis, the interest loss equals 60 per cent of its coin value, while there has been a loss in its purchasing power of fully 40 per cent when compared with average commodity prices and the advance in landed investments. While this loss, equaling the full coin value of gold, is only a negative loss, compared with active investments, it is real. But, as a loss, it has been neutralized in banking as a cost which has been paid in rates on commercial accommodations. Since price must cover costs, the loss to banking from the dead weight of its gold must be added in rates and unloaded upon manufacturing and commerce.

However this may be, this comparison between gold and high class bonds as securities for currency circulation must not be mistaken for an argument in favor of using bonds for such purpose, nor as an argument against the continued use of gold.

Broadly, and loosely speaking, it may be said—conditionally—that the function of money is to balance commercial exchange. To receive money is ordinarily the first half of exchange, spending it the second half; and the exchange is balanced. The first half consists of the effort of one to realize satisfaction and the recognition by others of the value of the effort. The second half consists in the realization of the object of the effort and the acknowledgement by the one of the assistance rendered by the others. The recognition and the acknowledgment were in money, the money being received and paid out before the exchange was balanced and satisfaction realized. As money in exchange represents what one has parted from and stands for what one anticipates in satisfaction of necessity or desire, it is really the evidence of unbalanced exchange,—since, when exchange is fully balanced, money has been received and paid out.

Money being accepted only in full faith that it will exchange for what will satisfy necessity and desire, must

be redeemed by commerce and in commercial commodities; and this principle applies to gold coin as well as to any other form of currency. The ultimate redemption of money must be in receiving it in payment for commodities or for taxes; so, if commerce and government must redeem all money, commerce and government should issue all currency instead of it being issued by those who hold the bonds of commerce and government. If industrial bonds and government and municipal bonds are sufficient in security for a currency issue when in the hands of brokerage, why are they not sufficient in security for a currency issue when in the hands of commercial banking and in the treasuries of the government and of the municipalities without the "rake-off" cost of the intermediate brokerage?

To provide against an uncertain contingency is frequently the surest way to bring it about. And this is true with convertible funds and moneys. We have always had periodical depressions in business activity, caused by unbalanced exchange developing into overdue deferred payments. These depressions will continue to occur, so long as unnatural costs enter into commercial balances and the funds generated by production and commerce are drawn away from their support by speculative investments. Money has nothing whatever to do with causing the depression, but our system has all to do with causing the accompanying panic. Instead of a system which teaches and compels a confident reliance in the basic value of credit instruments, we have provided for safety in instantaneous conversion of credit instruments. In time of real need, our credit system is much like an army which, advancing against the enemy, so completely provides every detail for safety in retreat as to destroy confidence in its ability to win a battle. Basic value of the credit is overlooked in the possibility of immediate convertibility. That credit instruments of different basic securities be

interchangeable in commerce and banking, it is unnecessary to compel that one be converted into another or into its own basic security. We only make the depression worse by attempting to convert our credit instruments. People rush to the banks to withdraw their deposits, while banks are skirmishing for gold and for paper payable in gold on demand. With banks fearing the people more than the people fear the banks, this leaves the banks in no position to handle the natural and absolutely safe funds of manufacturing and commerce—funds based on actual products.

The credit instruments in English banking are based on commercial products and are interchangeable with gold. Our credit instruments are based largely on bonds and inert values and are convertible into gold—in legal theory if not in actual possibility. With the same relative funds, England finances the price of her commerce, while we attempt to finance the price of our commerce and also the price of the earth. And this, too, regardless of the fact that debt-paying funds can be generated only by production and commerce.

There are two ways in which money may be cheap: first, by being of such low credit value that much money is required to buy little, and so cause reluctance in accepting it on deferred payments; second, while it may be of high credit value, by entering circulation at a low cost rate to commerce it fulfills its functions without embarrassment and necessitates but slightly increased prices on commodities. The first would be the cost of the money itself; the second would be the cost of its circulation. With gold costing—as an investment—100 cents on the dollar, and with paper currency, say, 2 cents on the dollar, there should be a better margin in both commercial banking and in commerce if paper currency is used at a 2 per cent rate than with gold at a 10 per cent rate. But a 2 per cent rate would be possible only with actual staple

products as security—as is the case with English commercial banking.

It is frequently asserted that our system of currency lacks elasticity. This is true, but the reason lies in the nature of the security and in the theory that it is redeemable in gold. The security being a fixed investment, the currency becomes as much an investment principal as is the security; so, to circulate, it must be *loaned* into circulation at interest instead of being *sold* into circulation by the necessity of commerce. The difference between being loaned and being sold into circulation is the rate of interest paid while in circulation. The obligation of redemption being the security of the currency, and interest on loans being payable in the currency itself, the currency becomes redeemed through the payment of interest on time loans; thus leaving the obligation of the borrower unredeemed, and with a waning circulation or an increasing volume of loans and deferred payments. That our currency can circulate only under interest rates makes of it an investment principal, or the substance of private estates, while the interest rates negative redemption obligations. By redeeming currency through the interest rates on itself, the security of the borrower must be increased with increasing indebtedness, since the security of the loan becomes a debt while the currency is circulating by virtue of new loans only.

This principle in our currency renders it a debt-creating force instead of a debt-paying possibility. While industry is seeking means to free itself of debt, the very nature of the currency forces it further into debt, since each loan calls for more money to be returned than is borrowed, while industry is not permitted to manufacture money with which to pay debts.

From this viewpoint of commercial needs, we really have no system of money. From the viewpoint of brokerage, we have the best secured credit money ever issued

in any country, for—being founded on secured indebtedness—it is better suited to loans and investments than to commercial needs. Being an investment in itself, it can circulate only at a high cost to commerce, which has need of a currency based on the staple commodities of commerce. The needs of commerce require a currency which will conform to the following rules:

First,—It should be absolute in its security, so confidence will be maintained with no interests compromised in receiving it and no loss resulting from holding it.

Second,—It should be positive and automatic in both issue and redemption, that its volume may adjust itself to expansion and contraction in varying commercial needs.

Third,—It should bear relationship to production and commerce in the origin of its issue, that production be assisted by paying for products in its circulation and by cancelling debts in its redemption.

Fourth,—It should be free from interest-bearing debtor obligations during time of circulation, so that no part of its volume will be retired by interest payments on itself or its security and thus be insufficient in redemption to meet the full obligation of its issue.

Fifth,—It should be local in issue and in redemption, with volume proportioned to local needs and proportionate to the issue of other localities, so that no locality will be favored in the relative privilege and volume of issue when measured by the varying interests and needs of each and every locality.

Sixth,—It should carry no privilege with its issue that can give any person or corporation any advantage over any other person or corporation in their productive and commercial interests, that the volume shall be proportionate and the issue and redemption be equal and fair to all persons and localities according to population and commercial interests.

Currency which would conform to these rules can be obtained in two different ways without materially changing present laws or banking system. One way would be to use staple certificates—warehouse certificates—as security for a commercial banking currency. The other way would be to reverse our present order of taxation,—first pay public expenses with an issue of *tax currency,* then levy a tax equal to the issue and so collect and cancel the whole issue.

Such staples as wheat, cotton, pig metals, coal and lumber have a value based upon the immutable average of human necessity. Others might be mentioned, but two will do for illustrations. Wheat and cotton, more so than any other staples, fall a dead weight upon commercial credits, since a full year's supply for the whole world comes on at once, while practically no part of either crop is put to any use in feeding or manufacturing by the producers. Corn is converted largely into meat and milk on the farm; lumber is often converted into finished products by those who own the stumpage; while pig iron and coal and other raw materials are often put through further processes of manufacture before leaving producers. But, using wheat and cotton for illustration, we find producers who have a full year of labor, capital and credit tied up in a vital supply which others must have but will not need for months to come. The immutable law of necessity makes of these staples a more perfect security than first mortgage bonds on the best portion of the earth itself, since they must realize within the year on 50 per cent value, while the bonds will realize only 4 per cent. While the staple products constitute commerce itself and the life of commercial banking, the bonds are a matter of investment and brokerage, yet have a 4 per cent advantage over gold as a security for currency. That staple products are vital, compels their value; that they must be on the market for a long average of time, necessitates that

they receive assistance during their period of floating in transition; that they increase in price by the force of economic interest, makes of them the highest class of credit assets; that they are certain of sale to supply unavoidable necessity, makes of them the most reliable security for a credit currency, since realization on their value is a certainty.

Our wheat and cotton are dumped upon the market at threshing and ginning time to become the footballs of gambling speculation in order to induce funds to their support. The producers must realize in order to balance the accommodations which they have received and to start the next crops. To warehouse these crops and issue certificates against a major per cent of their value, with the certificates a legal security for a *crop currency,* would enable these crops to finance themselves as well as to finance their producers. It would encourage production and solve the problem of "rural banks." Other staples can be given the same consideration if conditions compel a long period between production and ultimate consumption. But, in using these staple certificates for currency security, the banks issuing the currency must be entirely separated from brokerage so that crop funds can not be absorbed by speculative investments. While it may not be necessary for the bank in all of its interests to be free from brokerage, yet there should be an absolute division and separation between its commercial funds and its brokerage transactions, as much so as if it were two separate banks.

Such currency could circulate without being loaned into circulation, for—originating with the necessity for it and retiring with the security—it performs its functions without creating debts in either origin, use or retirement. And, being free from debtor obligations in its circulation, it would circulate at such low cost to commerce that but little of its volume would be retired by interest payments

on itself. One trouble with our present currency is that as it circulates only on loans and as all loans call for more money to be paid back than is loaned, its circulation necessitates a constantly increasing volume in order to pay the principal of the loans plus interest.

To make this more plain, it is best to revert to the "debtor" and "creditor" conditions—previously mentioned—and broaden the sense in which they were used:

All obligations, and whatever is subject to compulsion in self maintenance, mut be debtor in law and in economics. All legalized demands, and whatever can compel what is necessary to its maintenance, is creditor in law and in economics. So, since production is compulsory to the maintenance of productive capital, manufacturing and commerce rest within the debtor condition of economics. Therefore, royalties, franchises and special privileges rest within the creditor condition of economics. From controlled natural resources, exploiting permission is granted to productive capital; and, from the special privilege of money issue, currency is allowed to commerce, —thus making them creditors. Yet, while some interests rest within the creditor and some within the debtor condition, there are interests both private and corporate which balance between the two.

For instance, a man or corporation owns a tract of timber land, also a logging equipment and a sawmill. The latter are productive capital which will deteriorate both materially and financially if not actively employed in their intended purpose. That they are dependent upon the timber for their employment, makes them debtor to the timber,—since the timber may increase in increment without the sawmill and the logging equipment. The timber, being independent of the lumbering plant, is a creditor, and its price is a credit to be loaned or sold as best suits the finances of the owner. Whether one party owns the timber and another party owns the lumbering

plant, or whether one party owns both, the timber nevertheless is creditor and the plant debtor in their relative conditions.

The same principle applies to the merchant's stock of goods in relation to rent lease. If he fails to sell sufficient goods—and at prices which include his rent costs—the rent absorbes his stock capital. But, in this application, a distinction must be made between that portion of the rent which satisfies the value of the site and that which maintains the store room, for the capital of the store room is debtor to the site, since the store room must obtain the rental value of the site. And, also, any advance in the amount of rent would be an advance in the land value of the site and not in the value of the store room,—since, by deterioration, the store room should rent for less as time tends to its decadance.

While the stocks and bonds of a railroad represent a conditional joint ownership, yet the management — the stocks — are debtor to the bonds. It is all a matter of economic conditions and not a matter of persons, since one person may have profitable interests in each condition and so gain from one what he may lose by the other—whenever there chances to be loss and gain.

So, in considering an issue of credit currency, and recognizing these two conditions, the question arises, from which of these conditions shall the currency issue?

It can be said that the creditor condition is able to provide the best security, since it holds a lien upon the debtor condition and can make manufacturing and commerce stand and deliver when redemption of the currency is desirable. That is all too true, yet, when it is considered that basic securities must be productive in order to have value as securities, it will be seen that the products and not the producing properties constitute the real security. The value of a farm is in its crops, the value of a railroad is in the quantity of its transportation, the

value of a factory is in its output of products; and all are in the debtor condition because production is compulsory to their value—even as securities. So, to allow the creditor condition to issue the credit currency would be to obtain only an indirect lien upon the real value for its security and redemption. The real object of the currency being to encourage production by assisting to carry products forward into ultimate consumption sales, by basing the currency directly upon the products, it can precede the products in the payments of wages and then be redemmed by the products when the wage earner supplies his real needs. It is very simple in principle, but very complex in practice.

But, when currency is considered, the banking which is to handle the currency must be considered also. And here the creditor and debtor conditions arise again. Commercial banking lies within the debtor condition, while brokerage banking lies within the creditor condition. Commercial banking consists in adjusting and balancing the credit instruments of those who are compelled to make good or suffer loss. Brokerage banking consists in adjusting and investing the credit instruments of those who have made good in concrete estate. One associates with growing assets, the other with concrete assets. For commercial banking to issue currency on the credit instruments of production and commerce would be to base the security directly upon the live assets which are generating all wages and profits, and would give to commerce a safe currency which can circulate free from costs other than usual commercial accommodation. And the volume would vary with commercial needs, expanding with the crop seasons and contracting as volume wanes with ultimate consumption. It would be independent of speculative investments. For brokerage banking to issue a currency on the credit assets of concrete estates woud necessitate that it be loaned

into circulation in the needs of commerce and at rates which must increase the costs of commerce.

A currency originating in commerce and secured by its live assets would operate with and be controlled by commerce—expanding and contracting with the expansion and contraction of the assets. A currency originating in investment estates would be controlled by investment interests to the detriment of commerce whenever speculative investments were attractive or threatened with loss.

For the value of our staple crops and other staple products to evolve into a currency, would simply be to sell them through the circulation of the currency which represents them. To circulate the currency would be to unload the value of the crops upon the general public in the form of earnings, while the use of the currency in buying the various products of the crops would be the redemption of the currency. The process is the riddle.

Whatever is done along this line must be done through commercial banking; but, as before mentioned, commercial banking must be separated from brokerage banking before it is allowed to assume the privilege and the responsibility of issuing currency. Whatever the process, perfection must not be attempted in one step, but by evolution of what now exists. Whether a clearing house be authorized to receive a certain class of warehouse certificates and commercial paper from its associated banks and issue thereon a class of circulating certificates—to each bank according to its own certificates and paper, or whether it might not be sufficient to authorize a portion of the legal reserve held in reserve centers to consist of clearing house certificates based on warehouse certificates and high class commercial paper—paper representing actual products instead of land and factory values. To do this, the clearing house would necessarily become legalized and compulsorily supported by every bank in its association. With such certificates legalized as a portion of bank reserves and as a

limited legal tender between banks, they would constitute a sub-currency which would free for circulation their volume value of other currency which is not subject to immediate redemption. The principle only is suggested here; the working out must be done by commercial bankers. But, whatever may be done with commercial assets as a currency security, the smaller commercial banks of the country must not be discriminated against in any portion of the privilege by high discount rates or other discrimination. It should be so that currency limit can be quickly reached when necessary. Every provision should be made to eliminate excessive discounts—now purely optional with reserve privilege banks.

But the foregoing would not be a perfect currency either in issue, circulation or redemption. A perfect currency can be obtained only in connection with local taxation. It would require the least change in our present banking machinery, yet it would be liable to greater opposition from banking in general.

A *Tax Currency* could be put into universal circulation by reversing the present system of collecting and paying out the tax funds: first, suspend taxation one year and pay all public dues with tax currency; then collect and cancel in the following tax levy all that was paid out. This would require both national and state legislation to become operative, but the present national bank currency system is a perfect machine by which to put it in operation and for redemption and cancellation. It would be a national currency issued by the general government, but instead of being issued to banks—as in the case of bank notes—it would be issued to the respective states for distribution to each tax locality. Or, if preferred, it could be issued direct to counties and municipalities—in practically the same manner that notes are now supplied to national banks—and become legal tender when signed by

the proper civil authorities, the security being special bonds—state, county, or municipal.

Nor would it be necessary for taxes of any given locality to be collected in the currency paid out in that locality, or even in tax currency. The tax levies in Kankakee and Keokuk could be collected as well in currency paid out in Kalamazoo or Kokomo as in that paid out in their own expenses. All the currency being returnable to the government bureau of issue for cancellation, it would be immaterial what kind of money was received in taxes so long as total tax levies equaled the total amount paid out in public expenses. But, to insure its return for cancellation, it should be limited in its period as legal tender. For instance, the tax currency of 1940 (about the time it will be put in operation) can bear the dates of 1940-1942. It will be paid out in 1940, collectable in 1941, and legal tender during 1942—after which it will be redeemed on presentation at the bureau of issue. And if more currency is desirable, taxes could be suspended for another year, with the time of collection and redemption extended to two years instead of one year, and the legal tender limit be extended from two years to three or four years. This would double the volume in circulation.

Such currency issue would flow into circulation in every locality where organized society has public expenses which must be paid from tax levies. It would circulate without interest costs, so that the volume of issue would equal the volume of redemption,—which could not be possible if the volume of redemption equaled the volume of issue plus interest. Practically the same system could prevail in calling in and cancelling currency that now obtains in retiring and renewing national bank currency. The real difference would be that each state, county and municipality which has received its currency needs, as measured by its expenses, must return to the national bureau of issue the same amount of legal tender that it has received. Any

kind of legal tender would balance the tax account, and what tax currency chanced to be left in circulation after the final tax currency settlement with the bureau of issue would be sent in for redemption by banks and individuals as it neared its legal tender limit. Both issue and redemption would be automatic. All loss of currency, which could not be satisfactorily proven, would inure to the profit of the general government and pay a part of the expense of the issue and redemption.

From the center of the most densely populated cities to the most remote cabins in forests or mountains, there is an average public value in fixed properties, an average commerce, and an average need for public and private funds when measured by the number of individuals in each locality,—providing there is no unnatural obstruction in economics. This is the average of *man value*. In the larger cities, the average value of a man will cover only a few square feet or even only a few square inches of land surface, while in the more remote localities the same average man value will be extended over hundreds and even thousands of acres. The mean average between the man of great wealth and the lowest individual in the city will approximate fairly with the man where neither wealth nor poverty are remarkably evident. While one remote inhabitant may only exist, another may have a superabundance, yet there is the immutable average wherever the same race makes its habitation, varying only with the varying degrees of average civilization prevailing at any time. As one average begets another average, the average of humanity calls for an average in public improvements and in public funds. The average of public needs will average with private needs and also average with the production and commerce of the average community. So a tax currency would issue to every organized community in proportion to its average as a community and in proportion to its public and business needs. If the people of

any organized community desire more money in circulation they must tax themselves to receive it. It would flow into circulation, but—as tax collection will reduce circulation—the collection of taxes should be so timed that the largest volume possible will be in circulation during the crop moving season.

A system of this kind would work a great convenience to local civil government inasmuch as no state, county or municipality can know at the beginning of a year what its necessary expenses will be during the fiscal year. By paying all expenses in a currency which is not money until signed at time of need, there will never be a shortage in funds, while the amount of the tax levy will never be in doubt. And, too, every community will have received a volume of money equal to its tax levy.

In earlier days, in an undeveloped part of the country, the writer has received township warrants, drawn on a treasury as devoid of funds as a pine tree is devoid of pineapples. Later, these warrants were used as money in the payment of taxes. They acted as the currency of the fund they were drawn against. The simplicity and the crudity of that financial transaction has suggested a tax currency. It suggests a currency associated in its origin with the purpose of its use. It suggests also a currency associated in its origin with staple products.

While a tax currency would, in its relation to every individual and to every property interest, be the most equitable of any currency possible, yet it should be supplemented by a currency associated with staple products. The two combined would make it possible to organize farm community credits more perfectly than city credits are now organized.

Currency should be issued as a function and not as property. To use bonds as its security would be to enlarge the proprietary privilege to invest in bonds; it would be but to add a public function to the private estate of

the bond owner by enabling him to invest in more bonds. The currency could circulate on interest payments until redeemed by receipts of interest on the obligations, thus redeeming itself while the secured obligation would become a net addition to the investment principal of the ones who owned the privilege of issuing the currency.

On the other hand, to use staple products as the basic security for currency would be to enable producers to realize on their products prior to ultimate sales, and thus enable them to begin on new products without bonding their plants to obtain the currency issued by the owners of bonds. Manufacturers and farmers must have currency upon completion of their products and pending ultimate sales in order to begin new products. Dealers can not furnish this currency,—nor can the local banks when the time between the finishing of the products and their sale in ultimate consumption is as long as is necessary with staple crops and with manufactured products which enter, through contracts, into permanent construction.

Vital products, floating in transition, are better security than bonds, since the real value of bonds rests upon vital products. From this viewpoint of realization, the vital products have an advantage of from 75 to 90 per cent of actual conversion into the ultimate object. So, if a ninety day draft, signed by a responsible manufacturer and accepted and countersigned by a responsible dealer and endorsed by a bank, is a desirable investment for a "central bank of issue," it should certainly be a desirable asset upon which to base the currency necessary to the business it represents. It should be converted into currency nearer home and save to actual business the "rake-off" discount.

CHAPTER X.

PHYSICAL AND MORAL ECONOMICS.

A resident of New York, in a dissertation on New York restaurants and "tips," after telling how one may find fairly good meals at the small cost of two dollars per day, says:

"Most of the moderate-priced restaurants are on side streets, tucked away in old residences, or behind bars, or down underground in basements. That is the secret of their good values. For every New Yorker who eats about in public places—and every New Yorker has to—is certain to eat a great deal of rent with his food every year."

That last sentence is almost a book within itself. *For every city resident must eat a great deal of rent with his food every year.*

From our childhood days, we have heard much of the "peck of dirt" which we must eat before we die, yet we give little thought to the *Ground Rent* which we must pay in order that we may live. With the average family, even though they may own their home, it can be asserted that fully three-fourths of necessary expenses for the year comes from paying for the land value—ground rent—costs that have been attached to whatever the family may buy, and covered in the selling price. It will average three-fourths or more. From the first cost—the royalty cost of crude materials, or the purchase price of the land—all along the line of production, transportation, storage, wholesaling and retailing, a product gathers a volume of land value as a snowball gathers size by being rolled in soft snow. But the snow ball grows of its own material, while

the product grows in price only. The first cost—before labor is applied—is a cost to which all who assume its responsibility during development, finishing and time in wholesale and retail channels must add a percentage if they are to do business without loss. And whoever buys must "eat a great deal of rent,"—not alone the rent of the restaurant, which is measured by the price of the land under it instead of by the room which houses it, but also the rent of the land where products start and the rent of every piece of land which they pass over and rest upon while floating in transition before reaching the restaurant. If it is not all covered in the selling-price, then someone along the line has suffered loss. It is only the earth capitalized, with a small dividend on capitalization. The higher the capitalization—with the same low dividends—the higher must be the selling prices of all products which come from the earth, or which pass over and rest upon it.

Every effort of inventive genius to reduce the costs of production by making labor more effective has resulted only in raising the price of the earth, as a cost which must be covered in the selling-price of all products. Inventive genius has taken the burdens of toil from the backs of humanity, and given humanity a four-fold product, yet the higher prices coming of rising land value costs have placed a greater strain upon their nerves. Backs may grow more straight and hands more slim and soft, yet more burdens rack the brain with an increase of nerve disorders and insanity. And it may well be questioned if the physical sufferings of human derelicts can equal the mental suffering of a factory manager who has seen the rising price of his raw material absorb all the profits of his factory. Every effort to reduce overhead costs by proficiency in management, the introduction of more rapid and automatic machinery, the better training and greater efficiency of labor, has resulted only in a slack which has

permitted the constant advance in raw material royalties. The better the system, the more perfect the machinery, the more efficient the labor, the higher are the royalty costs; for every factory must *eat* a great deal of *rent* in its raw materials.

The question of controlling humanity by controlling the "earth and the fullness thereof" has been frequently discussed as a moral question. It has its moral side, since there is a moral side as well as a physical side in economics. But the hardest task one can set himself about is to show anything morally wrong in a comfortable income. Slavery was condemned on moral grounds, yet—as a class—no people were ever more consistently moral in their religious and social temperament and in their business dealings than were the slave owners of this country. They were so comfortably fixed in their environment and command of absolute servitude that they could well afford to set an example in morality and manners for critics who were so base as to necessitate that they perform their own personal services. How can one feel immorality in that which is personally satisfying in the highest degree? Is satisfaction immoral? Ask the cannibals if they feel any immorality in a feast on moral missionaries. And so it is, from the cannibal to the man who owns the greatest values in natural resources, whatever is customary is moral. If there is any doubt, it can be legalized, since it is commonly accepted as wholly moral to obey the law of the land. Legalize polygamy and plural marriage becomes moral to all who choose such plurality. Legalize free love and what is now illicit co-habitation will become moral to those who prefer such life. Yet, on the other extreme, even marriage seems immoral to some spiritual natures who feel themselves refined beyond the natural, and who eat only because of the imperative. So, morality must be relative—relative to the satisfaction which each one derives from the exercise of his measure of it. A woman would feel

shocked to be compelled to ride on a street car in her bathing suit; a man would feel it a moral duty to feed any starving animal—other than a human being. Some people feel it their moral duty to malign everybody who will not strictly conform to their moral and religious views. So, relatively, from the cannibal on up the scale, morality can be only the consistent practice of earnest convictions. Therefore, an economic system in which an unnatural cost absorbs two-thirds of the products of industry, without giving anything in return, can not be immoral so long as those who receive the profits are satisfied and those who pay are willing to do so. There seems to be nothing immoral in our economic system except on the industrial side where, after capital and labor have given two-thirds of their joint product for raw materials and rents they quarrel over the division of the fraction left to them. As between capital and labor, each considers the other very immoral in their demands, but since neither has made any complaint against land value it must be considered moral —even if it takes the entire product. The question of morality can not well be raised.

As a physical problem, our economic system is about as satisfactory as was Bill Nye's experiment in feeding the calf:

In telling of his farming experiments on his Asheville farm, Bill said that he tried the experiment of feeding a calf all the milk it could drink. At the end of four years the calf required the milk of six cows; it had a fine curly forehead, a deep mellow voice, and held possession of a ten-acre field. He adds that he experiment was an entire success, but not very profitable. While Nye was quite a moralist, he said nothing about the calf's moral right to the exclusive possession of the ten-acre field.

Our forefathers barred out all titles of nobility and royalty when framing our constitution, as if the designation of social degree was the substance and force of op-

pression. Commoners in England were not oppressing the people, so all in the United States were made commoners, just as though a dog could not bite unless named Lion or Tiger.

With a continent of free lands, embracing all elements of natural opportunity, there could be no individual oppression. The oppression which led to rebellion and revolution was the oppression to foreign commerce and that which resulted from large land grants. The people evaded these latter by going out into the forests beyond the limits of the grants. Yet, the land grants being mostly to titled personages, the minds of those free-born men revolted more against titles than against the land grants which gave to the titles their prestige. Washington was denied a title, but given a land grant which at the time of his death he was planning to develop. So he had no title to leave to his heirs, and they neglected his land grant; but, today, regardless of statutes of limitation, they are trying to find ways and means to come into possession of villages and broad reaches of as fine farms as lie in Western Ohio. They want either this or to have Congress give the equivalent in money to reimburse them for the sufferings endured by their great-great-uncle while he was making for himself one of the grandest names in all history. It would be far cheaper to give one of them a title from a famous battlefield and let him do the honors of the present family—unless some of them could win honors for themselves. A title—say "Lord Brandywine"—could have no economic effect upon the earnings of any of our people; but, with the land grant, to give Lord Brandywine the title and possession of those villages and farms, now on the land granted to Washington, would be to provide for a condition of oppression—in the near future—equal to any in Ireland or Russia. And the time of this will be when we have a system of landlords and tenants as complete in its operation as exists in those countries. But the power

to oppress will lie in the land title instead of in the man title. While our forefathers provided for all the ways and means—bound in a constitution—necessary for eventuating into oppression, yet they denied the possible oppressor the satisfaction of a title, regardless of how much wealth he might squeeze out of the masses through royalty and ground rent prices. So, now, when one of our people acquires the power of oppression, his wife must still bear the odium of a plebeian name, although his daughter may escape it. How can it add to the burdens of costs if some of our noted men were given such titles as they justly earn—such titles as "Lord Sweatshop-Tenements," or the "Duke of Black Diamonds," and the "Prince of Gasoline." Had Bill Nye named his calf "Duke" or "Prince," it would in no way have increased the cost of his successful experiment in feeding it all the milk it could drink.

In the last analysis, it is all resolved into costs, and the costs make up the prices we must pay. Had Nye been as systematic in his cost item accounts as the manager of a factory must be, he could have given us a price estimate on a cut of porterhouse out of his four-year-old calf. Had he tried the experiment while publishing the Boomerang at Laramie, where he could "pull the gray mule's tail and take the elevator" to his office above the livery stable, the cost of raising the calf would have been much less as the price of land in Wyoming at that time was much less than the aristocratic fields around Asheville. Presuming that the calf eliminated the labor problem by doing the milking, the cost of the calf would be the rental price of the ten acre field and the acreage necessary to pasture the cows that gave the milk. In Wyoming, in Nye's time, he could have found free pasture for his successful experiment and the meat could have sold without loss to production at from five cents to ten cents per pound, while at Asheville the cost of production would necessitate nearly as many dollars per pound.

Now, had Bill Nye gone before the Ways and Means Committee of Congress and asked for an import duty on meat and hides high enough to protect the cost of production on his calf, and given as his reason that it was to protect labor, everybody would have known—it being Bill Nye—that it was a piece of high class humor. But when the ironmaster goes before the committee and asks for a higher duty on pig iron, which is 80 per cent royalty costs, we all feel that he is asking for protection to the 20 per cent of labor cost in his iron. We fail to see the humor in his asking for protection in excess of entire labor costs and saying that he wants only enough protection to equalize the difference between the high wages he is paying and the wages paid to "foreign pauper labor."

Were Bill Nye alive today, and could he go before Congress and explain the per capita volume of currency necessary to finance the sale of meat and hides, with the cost of his calf as a price basis, we might see the humor in trying to provide an unnatural currency which can finance unnatural costs and pay debts which are unpayable.

Mark Twain said there were only six original jokes, yet he failed to observe the joke of protecting 80 per cent of land value cost in a product under the guise of protection to labor, which is only 20 per cent of the cost. Nor did he mention the joke of inflating the money volume to assist in paying prices which are inflated by 60 to 80 per cent of land value costs. But they were not so evident in his day as now; and, too, he might have connected them at the root with some such old joke among early kings as experimenting on slaves to find the least and most painful forms of death, since it is becoming almost that serious. It is often the case, that it is very difficult to determine just where a joke leaves off and death begins. Twain may have noticed it without mentioning it.

While tariff protection to labor is the joke of political economy, yet, with the average manufacturer it is hard to determine just where the joke leaves off and the death of his business begins. He does not see the joke, because it is on him; but, if he will figure out the land value costs in his raw materials and the ground rent costs in his factory site, and in the housing of himself and his workmen, he will then see the joke of protecting land value under the guise of protecting labor. It being prices which attract competing imports, if the manufacturer could eliminate land value costs from his prices he could double wages—or cut his prices one-half and still have a larger profit margin than now. With land value costs fully comprehended they will become the "mother-in-law" joke of the industrial family of capital and labor. Competing imports being attracted by prices, and with land value costs composing 65 per cent of average manufacturing costs covered in the prices, it must be evident that it is the land value which both attracts imports and receives all benefits coming of a protective tariff,—for, without this 65 per cent of unnatural costs, prices could be too low to attract imports and still leave a much larger margin of profit both on what is consumed at home and on exports.

While we are the youngest of all industrial nations, our natural resources are capitalized the highest of any on earth. While our farm lands are priced lower per acre than in Europe, when measured by volume of produce per acre they sell and rent higher, thus pricing them higher per result coming of use. Prior to 1870, England held an advantage over us in costs of raw materials by drawing her supplies from the seaboard of all the world while we were hauling our supplies of material from the rough lands of the interior. Protection then was no joke, because costs were in her favor. But, with the development and continued improvements in our interior trans-

portation, we obtained a large margin of advantage over England in the matter of raw material costs. And, just as the advantage in costs turned in our favor, royalty prices advanced to the full measure of both the advantage gained by improved transportation and the margin of protection in the tariff. Every advantage gained and made by inventive genius, by efficiency, by industry and by protection has been lost in the higher costs of raw material royalties and ground rents. The joke on the manufacturers is of the same nature as that on the boy who raised the steers. They were "Bub's steers but Dad's oxen." After years of factory and machinery development, the manufacturer who does not control basic patents or the raw material finds that he owns but a small portion of the values he has created by his industry—often, worn out machinery only. Manufacturers developed the industry, employed labor, paid the wages and created the values, while speculative investors absorbed the unearned increments and now own the resources from which the factory raw material is drawn. The higher the protective tariff, the higher goes the prices on raw material, while the manufacturer assumes all responsibility on an 8 per cent margin—marked down from 42 per cent since 1870. Every improvement which the factory system calls for must be met by the issuing of bonds, and the funds derived from the sale of bonds are but the funds created by industry and absorbed by land values—thus forcing our factory system, by gradual and certain process, under the stewardship of landed estates. The interlocking directorate of brokerage is rapidly assuming control of those great industries which were developed by the individuality of our great constructive men — men who risked their all in the faith of their ideals. Land value generates the TRUST.

The measure of necessary protection to labor and capital is not the measure of any joke in political economy,

it is the measure of relative selling prices in different countries. And the measure of these prices is not the measure of the labor cost and the capital waste with a margin on investment, but, rather, the royalty costs of materials and the ground rent of factories and homes, together with the ground rent which attaches to all products while in the hands of dealers. The country needing the highest protection is not the country where the highest nominal wages are paid to labor, but that country where royalties and ground rents are the highest. It is where they *eat* and *wear* the most *ground rent* with their food and clothing. The higher are land value costs, the greater is the need of a protective tariff; and those products which contain the highest percentage of land value costs in their selling price are the products requiring the highest tariff protection. The real measure of needed tariff protection is the difference in the royalty costs in different countries rather than any difference in labor costs. The manufacturer whose product cost contains the highest per cent of raw material cost and the lowest of labor cost is the one whose products stand in need of the highest rate of tariff protection. And his need for protection is no joke, but his real need is for protection against the land value costs of his raw materials instead of protection against the cheap labor products of foreigners. Germany is increasing her wage scales and crowding the markets of the world by holding down land value costs in her products.

Just as land value costs inflate prices far above capital and labor costs, just so do the inflated prices call for an inflation of currency with which to pay the higher prices, The "money question" is not a problem of currency alone. but the need of currency. First solve the problem of the need and then fit the currency to it. The need for money, in the last analysis, is the need for something which will balance commerce and liquidate deferred payments. A currency issued by those to whom the payments are due

can not satisfy this need, but will, rather, intensify it—for, to borrow money with which to pay debts, only shifts and increases them.

There are two sides to the economic question, as there were to the architectural style of Bill Nye's house. He said that the achitectural style on one side of his house ran back to the Sixteenth Century and on the other side it ran back to the henhouse. On one side, political economy runs back to Aristotle and the Greek philosophers; on the other side, it runs back to *ground rent.*

Solve the problem of land value and all other problems will be solved by automatic dissolution.

The philosophy of the humorist and the humor of the philosopher are much the same, only the humor of the philosopher is unintentional. Mark Twain, in "Roughing It," tells us of repairing his watch. He says that he put it together again just as it was before, "and had one wheel left." We call that humor, but when—after we have upset the balance of economics—the political economist puts the world together just as God made it and has one whhel left, we call his humor philosophy. With Mark's watch, the extra wheel was in his head, but with our economic system the extra wheel is the price to be paid for the privilege of living on the earth—and the price which manufacturers must pay for raw material in order that they may pay wages to keep the world alive. This extra wheel has become the center around which all else revolves, but God didn't put it there. Had He put a price upon the earth—a price which one man must pay to another for the privilege of being—He would have made it possible of payment instead of leaving the necessity of bonding future generations for that which we can not pay.

It is all a joke, a piece of humor which fails only because they upon whom the joke rests do not appreciate it. We take poverty seriously and deplore its existence, yet

the tramp is the butt of our humor. The irony of fate makes a joke of death. Invalids often outlive those who are worn to death in caring for them. Poverty increases with the increase of wealth, yet God never made paupers. They are ultra-natural, the lees of social fermentation, while another class forms the scum. And the irony of economics! The manufacturer who needs the highest tariff protection in order that he may pay fair wages to labor is he whose product contains the smallest per cent of labor cost and the highest land value cost. Those who have the greatest need for money are the ones who have contracted to pay for the largest quantity of land values, and the ones who "eat the most rent with their food every year."

And the remedy, if one is really desired, is to comprehend the joke, and the humor, and the irony of trying to realize enough purchasing power from the sale of products to buy and pay for the products and also have enough left over to pay the price of the earth. When the cause is fully comprehended and its effect fully realized, a remedy will come and it will be simple. But, before any remedy can obtain, the managers of Productive Force must fully realize that their efforts to sell enough products to pay for the products and pay for land also is as humorous and illogical as was the effort of the woman who tried to lengthen her skirt by cutting a section off the top to make a flounce around the bottom. A "hobble skirt" was the result. And a hobbled industry is the result of our present system.

We can not fill two holes with one plug.

CHAPTER XI.

THE SENTIMENT OF ECONOMICS.

There is a buoyancy in human nature which, at times, can convert death into humor and relieve the nerve strain that is bordering on dissolution. The grim grin on the face of a corpse is more humorous that the beaming smile of health. It is fortunate that this is so. It is really one of the provisions of Nature which assists in bringing life out of death. It is a species of optimism which causes one to smile at one's own failures while well knowing that failure must succeed failures to the end of their existence. It is optimism running to seed. It is the optimism of the smaller manufacturers and business interests, and the toiling masses. They need it and it is fortunate that it sustains their hopes, since men without hope are men without life. The grim humor of death is blended with the optimism of life.

The business world is now confronting a condition which calls for optimism of the highest order—a condition in which the pessimist should have no part. The business needs call for men of the broadest and fairest minds, men who not only have confidence in themselves but who have faith in their fellow men. The business world is confronted by the necessity for an entirely new alignment of business methods and business morals. Men in high places must no longer be called thieves and robbers, nor must they conduct themselves and their business in a manner that lays themselves open to the charge. The busines of the world is great and should be greater, and it calls for greater men to conduct it and they must be above suspicion. The

greater the business of the world becomes the greater must be the responsibility of the men who have the final say in what is to be done. Even socialism would bring a concentration of power and responsibility into the hands of one man or a few men, while present methods and training have failed to produce minds broad and fair enough for the responsibility. Men and ideals must be grown and developed to fit and manage the changing conditions, but selfish emolument must not be the incentive with results to self measured in coin of the realm. We must have greater men than we now have, but their greatness must reflect the greatness of a people rather than the greatness of selfish wealth accumulation. We must have greater men, but the resources of Nature must not be their private property nor even held in trust by them. That would make them too great by giving them the power of a Divine Providence. Even a veritable "Handy Andy," coming into the title and property of "Lord Scatterbrain," if that property was the whole earth, would become the greatest man of his time and appear co-ordinate with God. The greatness of property holdings may give a man great power for good or evil, but it can not make him truly great. For that reason great property interests in natural resources are a bar to the development of truly great men. Great property holdings magnify the owner and overshadows all others. The greater the property owned the greater the owner, regardless of whether he obtains it by accumulation or by inheritance. The property is greater than the man.

Sentiment may seem out of place in economics, but sentiment is a growing factor in our every-day life—impractical as it may seem. Next after freeing men from chattel slavery the sentiment of protection to dumb animals had the call upon the finer impulses of the human heart. Protection to dumb animals was an appeal to the better sentiment of humanity, then came a feeling that

inspired protection to human infants, and now a sentiment is growing and taking form for the protection of homeless young girls who must do the battle of life to the satisfaction of those who have assumed the keeping of our morals. It may seem strange that our high minded people, those who have the time and means for the work, should have thought of dogs and cats before their attention was drawn to the needs of sick infants and starving and neglected girls. But such are the peculiarities of the human mind and its habits of thought. And in this advance of sentiment, as a working factor in economics, we may now observe a growing demand upon employers of labor that they pay "a living wage" to the purpose that our toiling masses may maintain a standard of living in consonance with our standard of civilization. This demand is now taking form in investigation into low wages among working women and the introduction of bills fixing a minimum wage scale for unskilled workers. It is really a growing public conscience demanding a betterment and greater honesty in all public affairs, with a growing realization that each individual, and his earnings as well as deportment, is a matter of public interest. Of course, this growing sentiment for public honesty and individual betterment is inspired by those on whom the costs of life rest lightly and not feeling the burdens of the world they can well afford a sentiment that blessings should come to all humanity like dew to the flowers of early morning. Not being the employers of labor, other than in their personal satisfaction, to them low wages seems next to crime. Insufficient wages to labor is becoming a crime almost equal in importance to cruelty to animals. Sentiment is playing its part in a new alignment of public and business morals. Sentiment is a grand institution when it doesn't have to pay the costs.

There can be no question concerning the insufficiency of wages when the volume of total wages is compared with

the volume of the total product. But from what are higher wages to be drawn, the 8 per cent margin on productive capital or from the 65 per cent profits to royalty costs? A 25 per cent wage advance, without correspondingly higher prices, would bankrupt productive capital, yet sentiment is demanding higher wages. The makers of sentiment are not those who must pay the higher wages. Many of the makers of sentiment for better morals and higher wages to labor are those who are collecting the 65 per cent royalties on the manufacturer's materials and the 100 per cent advance in the wage earner's rentals. They can well afford such sentiment, for it costs them nothing and it may enable them to still further advance rents and vacant lots.

Sentiment is beautiful whenever it is profitable. To make the world better and ourselves more wealthy is a grand sentiment.

Is sentiment an appeal to reason? And what is reason other than a crevice in the mind between prejudice and fixed ideas? With mankind so intent upon that which will sustain life the only way to their reason is through their pocketbook. The ideas of man must conform to the measure of his necessity, and his ideas constitute the sum of his individuality, while his prejudices are the measure of his combative satisfaction. With the average mind an appeal to reason can find lodgement only when some shock knocks fixed ideas into a yielding mass of plastic uncertainty. New ideas can find lodgement in the mind crevices only when cloaked in some old familar garb and reveal themselves by degrees. New ideas produce fear and trembling, as did the ocean of old when the earlier mariners believed themselves nearing the outer edge of a flat world. The wrongs of the world may seem in but little danger, for the people love the old and the familiar even when it prematurely seams the face and bends the form to match a deformed conception of natural laws. Reason places

the mind in cold storage with congealed facts, and few there are who can stand low temperature. Sentiment can urge the mob to violence, or raise the minds of the masses to higher ideals. Reason is depressing, sentiment is inspiring, and being the stronger it must rule.

Reason having failed us in our economic relations with Nature and in dealings among ourselves, we must resort to sentiment, but should sentiment for the betterment of human conditions be directed toward higher wages for the toiling masses or toward reducing the price of the earth so they can afford to live upon it? Higher wages are needed only that the higher prices may be possible of payment, while the higher prices consist of higher land values. Many of our reformers have the time and the means for sociological study only because their living comes easily to them from the price of the earth which is pauperizing those whose condition they are trying to benefit. They are standing on the backs of those whom they are trying to lift up. Their own incomes seem so fitting and so pleasing they can feel nothing wrong in the manner of the obtaining or the source from which they come. They can readily see that if manufacturers would raise wages then the masses could more easily pay rents and buy vacant lots, while some even are endowed with the prophetic vision that higher rents and vacant lot prices would be possible. With the landless masses squeezed to the limit of present wages, they would squeeze the manufacturer for higher wages so as to extend the present limit. Their sentiment is very good. It is even really inspiring.

Chapter XII.

THE PRICE OF THE LAND.

As the old man comes back to the scene of his old forest home, and steps off the traction car, there is but one left of those boys who used to play around the old log schoolhouse and dive into the mud of the old swimming hole. Even this one fails to recognize him. Across a meadow, back from the graveled highway, by a grass-covered spring, is where the log house stood in which he was born. Only a pile of stone from the old fireplace marks the place where it once stood. A woodchuck is sitting on the topmost stone with a look of wonder and surprise that reminds the old man of himself when as ignorant and innocent, and but little larger and about the same shape, he was playing in the same yard. The woodchuck diving into his hole under the stone pile still further reminds the old man of those earlier times when he had hidden in the cellar to escape Indian massacres in Massachusetts and earthquakes in Italy. In those days Italy and Massachusetts and England were just across the big swamp which had no bottom and which was the home of bears and wolves and wildcats and big snakes. Taking the seat so kindly tendered him by the woodchuck, he looks across the old swamp, now with waving fields of grain, and almost feels the chill that used to creep along his short backbone when those dismal sounds came up out of its black depths with the evening mosquitoes.

Sitting on the pile of stone, the remaining part of the house where he had first seen the light of day, the old man's mind runs back over the events of a life which now

seems so commonplace to him. Privations he had seen in those forest days, when everything seemed eventful, and now his mind goes over the scenes of privation in cities where the abundance of wealth would seem to render privations impossible. As the forest was turned into farms the old charm of desolation and privation passed away and the "move on" spirit had the call of action. He remembers the nights passed in Indian wigwams, nights when nothing but the blue sky or drooping clouds were above him. Life in the lumber woods; the cutting of timber, the surveying of lands and logging roads, and the building of saw mills. Then came the city life and then the life on the road, with the rumble and swing of the cars, and the hotels of many states. He sees the crowded street cars of many cities in the early morning, as men come in from suburbs to their daily work, and again in the evening, as all classes crowd for room on one car in their scramble to return to the variety of places which they call "home." He sees men upsetting the weaker element of humanity in their haste to save a minute of imagined valuable time. In the larger cities he sees the tunnels under streets and rivers, designed to relieve the strain and clogging of an over-crowded human condition. In the South he sees men wading in swamps, working with steam-skidders, taking out logs; and in the fields are black women picking cotton while their babies lie in the grass by the fences. In the Northwest he sees white women and girls working in the fields, driving teams and on loads of hay and grain and building stacks, and in mills running saws and handling lumber. In the East he sees women working in machine shops while their children are playing in alleys. In the West, along great irrigating canals, he sees boxes, not much larger than is necessary for a dog house, in which families are living while awaiting the flow of water which is to assist them in the growing of food. Rag pickers in alleys, train loads

of hoboes, chain gangs of black and white criminals working side by side with free men in mines and mills. The bread lines and the soup rooms where the derelicts and the unfortunates mixed on a common level in obtaining the sustenance of bare existence. As his mind runs over these common conditions and incidents of everyday life, he asks himself, wherein were the privations and hardships of that life in the forest, with the freedom of thought and action which no city life can give?

Hardships and privations? Evidently, the woodchuck under the stone pile was having hardships and privations, as he worked himself up into sight and with a chuckling whistle, which shook his fat sides, hustled himself out of sight again.

There was no more sentiment in the old man than in his successor, the woodchuck, who now occupied the old home and was much better housed and fed than many human beings he had seen in the larger cities. Nor was he envious of the present occupant of his old playground while sitting there and ruminating on the past and present conditions of life.

Why had his parents and their neighbors come into the forest, and why had their children moved away with the clearing of the soil and the building of the highways that gave such advantages over the wild conditions of their earlier life? The answer that came to his mind was, *The Price of the Land.*

Those earlier settlers were not farmers by practice or by nature. They were descended from the habitual "Western Man" who had pressed the frontier backward from the Atlantic coast and onward through the wilderness across the Eastern and Middle states to the prairies beyond the lakes. Their harvest was not of the growing crops of farm lands, but of the growing value of the land itself. They were a hardy race of axmen and riflesmen, and the forest was their home. The freedom of their

action so inspired them with the sense of honesty and justice that no laws were required for their government, and life and property were more safe without guard or lock than in the hands of officers of the law in our larger cities. They could settle and organize a state and frame a constitution which contained the elements of justice, but when the price of the land advanced they passed on toward the free lands of the West to found new settlements. From these free people of the forest have sprung some of the grandest characters in American history. They were "Students of the Academy" and many were the backwoods minds as logical as Plato. Discussing academic questions and solving mathematical problems was a pastime that developed such types as Lincoln and Garfield.

In the earlier days our wilderness was a "No Man's Land," in which the people took but little interest. Our earlier manufacturing was established on free raw materials. Not necessarily free of duty, but free for the taking, and the cost of production was the labor cost with most of the capital of production belonging to the laborer. Privations were there, but privations do not necessarily mean poverty. The working man of today can hardly afford a suit of clothing as valuable as the old fashioned "homespun," nor can he afford an overcoat as valuable as one of bear or buffalo skin. Many of the privations of those days are considered as luxuries today, and a family will save for eleven months of the year in order to pay for the enjoyment of one month of such hardships and privations. It seemed a hardship to have no other syrup than maple for pancakes and no other meat than venison. It seemed a hardship to have a flock of wild turkeys come into the field and help a boy husk corn when killing one was no object, since a quarter of venison might spoil while the turkey was being eaten. But it did not seem any hardship to get up early in the

morning, do up all the morning work and walk sixteen miles to the embryo emporium of commerce to see Dan Rice's circus, go without dinner and walk home in time to milk the cows. That was easy, but getting up the next morning to hoe the corn was somewhat of a hardship.

How different were the conditions in those earlier days in the forest, and how different the spirit and sentiments of the people. There was an independence without insolence, and a freedom of thought and action which no city life can give to one born subject to its toils. There was no feeling of inferiority to blight the ambition of a sensitive boy who might aspire to the higher positions of life. Among those forest boys, whom the old man recalls to mind, was the material of manhood which developed into the broader field of action as they came to manhood's estate. Among those boys who ran barefooted through the forests and began their education in log schoolhouses he now recalls to mind merchants, doctors, factory managers, state legislators, bankers, a judge, a college professor, a high railway official and a congressman. That forest life was rich with inspiration and mental development.

Sitting there on the ruins of his birthplace, this question came to the old man's mind: "How could those early settlers have paid any price for the privilege of living in the forest?" Their handicraft, applied to the crude resources, supplied ninety per cent of their living, and the balance, a few luxuries and tools and ammunition for their rifles, was obtained mostly from the sale of hides and furs and game. Prosperous as they were as pioneers they could no more have paid a price for their privileges than the woodchuck under the stone pile could have paid rent. Fat and prosperous as the woodchuck was, the only way rent could be collected from him would be with a shotgun.

As the old man moved away that his successor could have the same chance at a living that the pioneers had

enjoyed, another question came to his mind: "If free lands and materials free for the taking were such an important matter to those early settlers, why is not the 'Price of the Land' just as important now to the manufacturers of the country and to their workmen?"

Just as the early settlers gave value to the lands of speculators by building school houses and cutting out highways, just so is manufacturing capital and labor giving value to the lands of speculators today. Their industry and labor is building up a cost against themselves which is not only absorbing their earnings but is diverting the purchasing power which should buy their products, and compelling credit consumption to prevent apparent overproduction. The overflow of their personal value is the "Unearned Increment" which compels them to increased exertion and worry in paying others for the values they themselves have produced.

But there was one thing, one point of sentiment, among those early settlers which the "better element" of our people would condemn today as a principle of dishonesty. They would steal timber off the government lands and off the lands of speculators, and they would kill game regardless of all game laws. Honest and free-hearted to a fault in all personal dealings among themselves, leaving houses alone all day without being locked and leaving their most valuable tools out in the highway as a rule, they did not respect any laws for the protection of timber and game. Not only was it considered honest to violate such laws, but it was considered disreputable for any one to turn informer, and the man who would assume a guardianship over a tract of land held for speculation was, as a rule, below the standard of backwoods honesty and a man who needed watching. To them, timber and game was a condition in Nature and they failed to feel and realize the personality of an invisible ownership. It was different from taking from an individual. The government was a

rather than by the benefits derived. Under this system no man could take advantage of other men, nor could he rise above them in wealth and distinction unless by reason of superior inherent qualities. The earlier patricians were men of recognized superior abilities and not of superior wealth. But as every war called for acts of generalship and heroism, and as the Roman system of rewards was to grant a special public favor in the form of a land grant, free from public levy, and with the heroes themselves empowered to do the granting, it was only a matter of time with heroic acts and land grants until the only remaining public right was in the conquest of other lands. Thus with all home lands owned by the patricians, free from public levy, and with the public rights of the masses lying in the foreign lands which they must conquer, conquest wars became necessary not only in supplying the public revenue but in supplying food for the masses, since the home lands had become too valuable for any purpose other than pleasure grounds for the favored few—the descendants of former heroes. The lands of Italy became so high in rental value that none could afford to pay the price of the land nor pay for their produce at prices that would pay dividends on capitalization, so those who dwelt upon the land were virtually owned by the land owners. They became a part of the property rights of the land with the lowest manner of living the only reward for the fullest measure of their toil. The few were inheriting the former rights of many, and while "to be a Roman citizen was greater than to be a (vanquished) king" the price of the land made production impossible in profits to labor and so smothered the handicraft of the people in the science of war. As the price of the land robbed industry of its profits, conquest became a necessity; and as conquest levied tribute on the handicraft of other lands in supplying the fastidious tastes and demands of Roman aristocracy, the incentive of the artisan was gone

and he must turn warrior in supplying the needs of his family. The artisan turned warrior could produce more by war than by his art and the incentive to art died out in war. When a "Roman peace" spread over a conquered world it was also a covering for the grave of Industry. A peace coming with the passing of a civilization graced with gems of art which no trammeled mind ever could have conceived. A peace coming with the passing of a civilization which, robbed of reward and incentive, could no longer supply an army with the sinews of war. A passing civilization, dying for lack of incentive and productive reward, buried in the "dark ages" by the Goth and Vandal, who, in the interment, were inoculated with germs of inspiration. The wonder of what had been was the germ of inspiration which carried civilization to the lower priced lands to the Northward, and which later led across the uncharted seas to the unknown and revealed to a deadened world the free lands of a new continent. The new redeemed the old and made another civilization possible.

All civilizations of the past were founded by savages by building free institutions on free lands for the producing masses. The incentive which builded for the better was the reward coming of an industry which gave to each producer the enjoyment of the full measure of his produce. The more skilled handicraft of the people was developed by the incentive of having and enjoying the best that their industry and skill could produce. The underlying principle of all civilizations is the right of being and the privilege of doing, that all may have the fullness which their genius and ability can produce. A price on the land is a limitation of what the producer may have and own and use, and the higher the price the greater the limitation. The degree of civilization throughout Western Europe depends upon the cheap lands of the unappreciative countries where a commerce can obtain cheap raw materials and avoid the payment in all their needs of the

high priced home lands. When speculation reaches and raises the price of all lands, and their life giving resources, civilization will hang in the balance with the earth becoming too high priced for common human use.

Shepherds and herdsmen, tending their flocks and herds on free pastures around the shores of the Mediterranean, developed a handicraft which supplied a taste they could well afford, for they paid no tribute which divided their produce with others. As their appreciation grew, their handicraft developed a more subtle art in producing the beautiful and the grand, and Nature was assisted in developments which multiplied the supplies of sustenance and luxuries needed by a more refined people. The satisfaction in having and using increased the incentive for planning and doing until civilization, the flower gardens of humanity, grew and blossomed where the seed of savagery had been sown in earlier times. But the development of civilization developed the concentrated control of natural resources, and it developed the price of the land which divided the produce of industry. Heroes developed into rulers and kings and the rewards for heroism became titles in perpetuity, and the arrogance of their descendants became greater than the heroism of the ancestors. The arrogance and opulence of those born plus the rights of the millions, so taxed the handicraft of the people that little was left to give incentive to well doing. This extortion left so little to the producer that robbery became more profitable than production and the incentive and the handicraft which had builded to the higher civilization died out for lack of rewards, and the civilization died for lack of a handicraft to feed it.

In those dark ages which followed the exhaustion of civilization, the handicraft of the people was confined to the needs and arts of war, and to a food supply so meager that slaughter became a virtue by preventing starvation. But, amidst plundering warfare, urged on by fanatical

creeds, there were, here and there, springing up "free cities, the homes of the "guilds," where little by little a new handicraft was developing and giving its commerce to the narrowed world. Hiding in marshes and forests, to be free from plundering tributes, men were again applying their incentive energy and incentive genius to the free opportunities of Nature and enjoying the fruits of their toil. From this period of new development came that independence of thought that inquired into the rights of men to form ideas, that turned the world from flat to round and added to it a new continent.

With a new continent of free opportunities came relief to an over-taxed world. Not relief to over-population, but a relief coming of a commerce in materials free from land value costs. As the treasures of the Incas and the Aztecs diluted the money volumes of the old world, the debts of superfluous profligates were diluted and liquidated, and prices became attractive to producers. Not prices padded and swollen with royalties and rental costs, but enlarged and rich with the wages of labor and the profits of industry. Industry and commerce were liberated from unnatural costs and tributes, and drawing their supplies from the free lands of a larger world a profit became possible to those who were willing to do that they might have and enjoy.

With the expansion of commerce there came a renewed development of that old handicraft which had filled the world with wonder at its skill, but which, failing to supply the demands of free opportunity, now develops into a *braincraft* and doubles over and over again the capacity of the hand in supplying the higher tastes of human desire. *Opportunity,* and not *Necessity,* being the mother of *Invention,* from the opportunities offered by free access to natural resources there sprang an inventive genius which promised well to solve the secrets of the universe. With the forces of Nature harnessed in automatic pro-

duction the acme of civilization should be reached and poverty banished from a world that has proved itself such a bountiful provider for all who come to live upon it, if they only respect the laws of Nature and do not attempt their repeal. But, in the beauty of the prospect, in the fascination of the possible in human achievement, the latent desire for power over fellow beings and the morbid satisfaction of living off the toil of others without giving any return has led to a reaching out by some for a concentrated ownership of Nature that all others must pay tribute and live upon the earth only by purchased permission. The growing price of factory materials is the tribute being collected, the war between capital and labor is trying to decide which shall pay the tribute.

France was poverty-stricken until a revolution drove an arrogant nobility from their roost upon its natural resources. A prosperity never before known to Europe followed the freeing of the lands and Napoleon was given the credit by the people, and their gratitude was such they would follow him unto death. With the flight of those who were collecting the price of the land, opportunities became free and he was worshiped for the accruing benefits, for all of his wars did not take from the people so much in taxes as did the rentals of the nobility in times of peace. The difference measured their prosperity, and resumption of rentals by a restored nobility measured the following depression.

Take too much from the people and they lose their incentive for the better in life and become indifferent to the higher life in which they have no part—but in the making. To them there will be no beauty in the twinkling stars and budding flowers, and sunshine will be but sweltering heat that saps their ill fed energy. Rob them of their incentive and hope of prospect by taking from them too much of their earnings in payment for the privilege of their being, and their indifference to the better in life will take from productive capital that margin which

now makes production possible by making it profitable. With shrinking consumption there must come shrinking production and a shrinking wagė fund. With a shrinking productive capital we must have a declining civilization; a rapid decline, without a handicraft among the people, to the lowest point where the hand can feed the mouth and survive. Our higher education will leave the Roman proletariat as butting rams to howling wolves. The Price of the Land will have absorbed all profits to productive capital and all liberties of the people, and will have rendered the earth too costly for ordinary people to live upon.

Price of the Land!—Twin sister of Poverty, the favored one and the recipient of all benefits; the foster mother of Arrogance and Idleness; the mistress of Segregated Wealth and the clandestine mother of Crime! Where was your hiding place when savagery was the state of man? From what asylum did you escape when the sunlight of knowledge and the force of industry brought civilized man to a realization of the value of opportunity? Will your seductive beauty and voluptuous being always charm and enthrall our greatest men and pollute their progeny with the idleness of your association? Should men, in the weaknes of their egotistic pride, be allowed to fall victims to your alluring sensuality? Can any people so free themselves from your bribery and become so strong in their law-giving as to prescribe a limit to your debauchery, or banish you from their country, that they may rise, untrammeled, to the noblest heights of human possibilities?

Yet, we must not judge too harshly. The few must not be too greatly blamed for doing what all were striving to do. In the older world the resources of Nature were as desirable as now. They were the prize open for the winning, the contest was of arms. The strongest arm and the stoutest spear won the prize and the masses of humanity bowed down to toil and tribute until proverty rusted into

their very souls. Another world of resources was revealed, and again it was by contest the prizes were won; not won by the strongest of arm but by the keenest of mind. Again the people yielded to the unlimited greed of the few, but not so willingly. The lottery is a thing of the past and the spirit of gambling is under the ban of a strengthening law. The conception of right and wrong is undergoing a change, and men are questioning the right of gain where others must lose. To question is to open the crevices of the mind, and once open, the light of truth will enter, for the inherent nature of man is to be just. Men are striving for the right as the clouds of old fallacies lift from the brow of justice. The right is their desire and the right must prevail.

From the earlier days, the theme of bard and minstrel has been more of justice than of war, and war, as sung, was but to enforce their ideas of right. From those earlier days men have dreamed and sung of happy homes in favored lands where laws were just and men were free. Their waking vision was of justice and freedom, their struggles were of wars and oppressions and not with barren soils and a stubborn nature. Ever their dreams and desires have led them onward, over mountains and seas, ever seeking and never finding that rest and peace which a broad and fruitful world should give. Every clime has been traversed and every sea explored, yet, from richest valleys and fertile plains, where the hum of industry is music to the ear and the fullness of the harvest is a feast to the eye, men still are restless and moving, seeking that which humanity has never found.

But why seek for something better when the fullness of the earth is at our hand and justice is of our making? The earth is doing its part and from every land a fullness is flowing that does not speak of poverty.

"Beautiful world, though bigots condemn thee,
My tongue finds no words for the graces that gem thee."

There can be no fault in Nature; all is bountiful and just, and the inherent nature of man is to be just. The fault lies in us, in not knowing how to use what Nature has given for our use. What Nature has made free for all should remain free for all. Where there is no human cost there should be no price, for there can be no fund developed in human economy which can pay the Price of the Land.

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